CAUSES OF COMMERCIAL BANKRUPTCIES

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BUREAU OF FOREIGN AND DOMESTIC COMMERCE

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CAUSES OF COMMERCIAL BANKRUPTCIES

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A Study Made in Cooperation with the Institute of Human Relations and the Law School of Yale University

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FOREWORD

Individual and commercial failures are, in general, preventable, and their occurrence is both a reflection and a burden upon our economic system. Heretofore, little thought and effort have been directed toward the problem of eliminating the causes which give rise to failure. Few attempts have been made to secure the experiences of unsuccessful business venturers for the consideration and benefit of others faced with similar difficulties of conducting a business profitably. An analysis of the facts underlying commercial failures and the widespread dissemination of these facts will ultimately, it is believed, bring about a more general avoidance of ruinous methods and practices. If certain causes are known by fact to result in failure, the business enterpriser and his creditors may take the necessary precautionary measures and so avert failure.

This reports consists primarily of a critical analysis of the causes of bankruptcy. The relative importance of the various causes of failure is determined, and from this and other similar studies there may be evolved effective methods for reducing the number of failures. The danger signals and pitfalls to be avoided are disclosed for the benefit of creditors, debtors, and prospective business venturers. If the facts herein presented are given careful consideration, it is believed that the resulting benefits will be numerous and pervasive in their application.

The information presented in this report was secured from a detailed analysis of 570 commercial bankruptcies. The valuable assistance and enthusiastic cooperation secured from many persons resulted in the accumulation of the necessary and relevant data which are presented herein. Limitation of space, however, prevents the acknowledgment of appropriate and deserving recognition to each individual contributing member included in the following groups: The bankrupts and their creditors, trustees, lawyers, trade associations, representatives of Yale University, and many others.

This survey was conducted in cooperation with the Institute of Human Relations and the Law School of Yale University. The interviewing of bankrupts and examination of court records was made possible through the courtesy and cooperation of the Hon. Arthur Black, Hon. B. Loring Young, and Hon. Charles C. Cabot, referees in bankruptcy. The plans for the survey were formulated and developed by Prof. William O. Douglas, of Yale University, and Dr. W. C. Plummer, of the Department of Commerce.

Frederick M. Feiker, *Director,*
Bureau of Foreign and Domestic Commerce.

September, 1932.

CAUSES OF COMMERCIAL BANKRUPTCIES

SIGNIFICANT FACTS

1. The major causes of bankruptcy disclosed by the data analyzed in this study are inefficient management, unwise use and extension of credit, adverse domestic and personal factors, and dishonesty and fraud.

2. The lack of economic opportunity, ability, and other requisites for successful business operation prevented the majority of the bankrupts from succeeding. Their failure was, therefore, a consequence of an unjustifiable entrance into business.

3. Indiscriminate and careless granting of credit to the bankrupts by incurious creditors enabled many to start and to continue a business in which failure was inevitable. Three hundred and fifty principal creditors admitted that they did not know the causes of failure in 249 of their debtor concerns.

4. Over 68 per cent of the owners or managers had not completed a high-school education.

5. Over 51 per cent of the bankrupt businesses had no accounting records. A consideration of all direct and related evidence revealed that the accounting records of an additional 28 per cent of the bankrupt concerns were inadequate for the needs of the business.

6. The open-credit losses of the bankrupt establishments for the year prior to failure amounted to 5.6 per cent of open-credit sales, which is approximately nine times greater than the bad-debt losses of active concerns.

7. Prior to ownership of their concerns, nearly half of the bankrupts were engaged in occupations which did not provide any experience in the business they entered.

8. Only 5 per cent of the 564 bankrupts reporting on the subject used credit bureaus.

9. Approximately 53 per cent of the owners had difficulty in paying creditors from seven months to two years prior to their bankruptcy.

10. In 72 per cent of the cases the amount of capital invested by the owners and creditors in the bankrupt enterprises at the date of their organization amounted to only $5,000 or less. Included in this group are 124 concerns in which $500 or less was invested by the owner and his creditors at the date of organization.

11. Scheduled assets (including real estate) of the 570 bankrupt concerns amounted to slightly less than 18 per cent of scheduled liabilities (including collateral and real estate loans). In other words, if assets were sold at the value placed upon them in the bankruptcy petitions, and if there were no costs of administration, creditors would receive only 18 cents on the dollar for their claims. The exact amount realized from a bankruptcy sale is usually much less than the total value of the assets scheduled in the bankruptcy petition, and the

costs of administration paid from the proceeds of the sale are usually sufficiently high to prevent the creditors from receiving more than insignificant amounts for their claims.

12. Failures of all types and losses have been increasing rapidly. Commercial failures (exclusive of banks) have increased, according to R. G. Dun & Co.'s figures, from 8,881 in 1920 to 28,285 in 1931, an increase of over 200 per cent. Liabilities in excess of assets (scheduled) have increased from $99,618,000 in 1920 to $301,369,000 in 1931, an increase of over 200 per cent.

Bankruptcies (including noncommercial), according to the Attorney General's reports, have increased from 15,622 in 1920 to 60,322 in 1931, an increase of almost 300 per cent. Losses to creditors have increased from $179,403,062 in 1920 to $941,033,610 in 1931, an increase of over 400 per cent. The total loss for the 12-year period was $7,223,727,656. The average amount received by creditors for this period was 8.43 cents on the dollar.

13. A large proportion of commercial failures can be prevented by (1) maintenance of proper accounting records and efficient operation of a business by its owner, (2) selective and wise credit extension by creditors, and (3) enforcement of penalties for dishonest and fraudulent acts.

METHODS AND PURPOSES OF THIS SURVEY

The individual case method of study employed in determining the causes of failure made possible the collection of much pertinent and valuable information. The factual data were secured from several sources by representatives of the Department of Commerce and of Yale University. Directly after the conclusion of the first meeting of creditors, held in the bankruptcy court, the bankrupt was interviewed in an adjoining room and gave answers to many questions relating to his affairs and the events leading up to his bankruptcy; in cases where it was not possible to interview the bankrupt at this meeting, the questioning took place at the examination of the bankrupt by the trustee. Creditors were interviewed or written to for information concerning a particular debtor and his activities, and their opinions and statements disclosed facts that would otherwise have been impossible to secure. Other sources of information utilized included court records and the files of credit associations, banks, and attorneys. The constant check of information from one source against another assures the accuracy of the results.

The only cases included in this report originated and were settled in the bankruptcy court. In each case creditors suffered a loss on their claims.

The jurisdiction of the bankruptcy courts from which the cases were secured extends over the counties of Middlesex, Norfolk, and Suffolk in Massachusetts, which includes the metropolitan area of Boston and surrounding towns. The area covered by these counties is estimated to have a population slightly in excess of 2,000,000 people. The cases studied reveal, therefore, the causes of bankruptcy among many different kinds of commercial enterprises. The period covered was from November, 1930, to June, 1931.

One of the major purposes of this report is to determine the relative importance of the principal causes of failure which affect commercial enterprises. An unbiased study of many failures and the reasons for their occurrence provides facts which necessarily must be considered before preventive and remedial measures can be formulated. Another purpose of this report is to stimulate efforts directed toward needed improvement in credit practices. From the accumulated experiences, herein presented, of the many who entered business without sufficient training, ability, or other requisites, and later failed, may be deduced a realization of the urgent need for greater efficiency in credit extension. The significant and disastrous consequences of unqualified entrance into business and unjustifiable credit extension discussed herein can no longer be ignored or disregarded. The mistakes made by others are set forth as danger signals and definite warnings for creditors and owners of existing concerns. To heed them and to take proper precautions may forestall failure.

DEFINITIONS AND USE OF TERMS

Most of the terms used in this report conform to general interpretation and usage. The following terms are briefly defined and their usage explained to prevent any doubt as to the meaning attached to them in this report.

Commercial failure.—A suspension of business operation by a corporation, partnership, or individual engaged in commercial activities which involves a loss to creditors.

Bankrupt.—The state of being insolvent as defined in the bankruptcy act. The only cases included in this report were commercial failures that were adjudged bankrupt and settled in a bankruptcy court.

Inefficient management.—The unprofitable and unsuccessful conduct of a business, due to lack of training, experience, ability, adaptation, or enterprise of its managers.

Insufficient capital.—Lack of funds with which to pay operating costs and credit obligations as they accrue.

Business depression.—The period in the business cycle characterized by a maladjustment between production and consumption, unemployment, decline in sales, decline in prices, and other disturbing economic factors.

Bad-debt losses.—Unpaid accounts or notes receivable considered uncollectable.

Competition.—Rivalry in buying and selling of commodities or services.

Adverse domestic and personal factors.—Family or individual characteristics or troubles that were detrimental to the business; such as bad health, expensive family, excessive medical expenses, poor personality, gambling and drinking habits, laziness, and extravagance.

Decline in value of assets.—Shrinkage in value of inventories, real estate, investments, and other assets.

Excessive overhead expenses.—Overhead costs which were larger than warranted by the volume of sales.

COMMERCIAL FAILURES IN GENERAL

EXTENT

Available statistics on commercial failures include only those enterprises whose voluntary or involuntary withdrawals from business result in a loss to creditors, and whose property and affairs are settled through bankruptcy, composition, receiverships, or assignment proceedings. Frequently the owner of a small establishment simply closes up and disappears without notifying his creditors, who divide up the remaining assets, if any, without the assistance of an outside agency. In such cases the discontinued business is not recorded in the failure lists. Furthermore, concerns that discontinue business with a loss to owners but not to creditors are not included in the statistics of commercial failures. If it were possible to secure the number of all commercial failures, the net result would be startling and would further reflect the need for improved methods in credit administration.

The present record of commercial failures which shows that 28,000 occurred in one year is sufficiently alarming, however, to merit the serious consideration and appropriate action of all persons interested and influential in stabilizing business units, either individually or collectively. The reader will observe in the following table that the number of commercial insolvencies has increased steadily during the past decade, and at a greater rate than the increase in number of concerns in business.

Commercial Failures in the United States

Year	Number of failures	Number of business concerns	Per cent of failures	Year	Number of failures	Number of business concerns	Per cent of failures
1920	8,881	1,821,409	0.49	1926	21,773	2,158,400	1.01
1921	19,652	1,927,304	1.02	1927	23,146	2,171,700	1.07
1922	23,676	1,983,106	1.19	1928	23,842	2,199,000	1.08
1923	18,718	1,996,004	.94	1929	22,909	[1] 2,212,779	1.04
1924	20,615	2,047,302	1.01	1930	26,355	2,183,008	1.21
1925	21,214	2,113,300	1.05	1931	28,285	2,125,288	1.33

Source: Dun's Review.

[1] The difference between this figure and the census total quoted later is due to (1) different methods of enumerating and (2) different definitions of what constitutes a business.

The figures included in the following table were taken from the Attorney General's annual reports and include all types of bankruptcies in the United States—wage earners, professional people, farmers, merchants, manufacturers, and other classes. The table definitely shows the extent of increase in bankruptcies for the past 12 years. The number of bankruptcies in 1931 exceeded those of 1920 by 44,700, and liabilities for 1931 exceeded those of 1920 by $807,027,613. The recorded loss to creditors through bankruptcy alone amounted to approximately seven and a quarter billion dollars ($7,223,727,656) during this 12-year period. The average amount received by creditors on their claims amounted to slightly less than 8½ cents on the dollar during the same period. In the year 1931 there were 38,507 no-asset cases.

Number of Bankruptcies, Amount of Assets, Liabilities, and Payments to Creditors, United States, 1920–1931

Year ending June 30—	Number of cases	Total assets realized	Total liabilities	Total paid to creditors of all classes	Per cent of liabilities paid
1920	15, 622	$29, 598, 593	$201, 626, 264	$22, 223, 202	11. 02
1921	15, 200	27, 278, 199	171, 284, 367	22, 511, 406	13. 14
1922	22, 517	37, 899, 609	255, 613, 895	29, 433, 987	11. 51
1923	34, 401	61, 861, 449	486, 400, 908	47, 998, 037	9. 86
1924	41, 649	71, 587, 136	663, 644, 791	54, 523, 254	8. 21
1925	44, 440	85, 348, 873	747, 522, 847	63, 528, 049	8. 49
1926	47, 307	93, 017, 550	806, 312, 992	70, 764, 864	8. 77
1927	48, 269	96, 558, 929	885, 557, 335	72, 094, 328	8. 14
1928	53, 592	90, 540, 062	830, 778, 611	66, 693, 405	8. 02
1929	57, 039	88, 964, 116	883, 605, 665	66, 323, 364	7. 51
1930	60, 548	106, 245, 487	948, 257, 731	81, 827, 464	8. 62
1931	60, 322	89, 535, 070	1, 008, 653, 877	67, 620, 267	6. 70
Total	500, 906	890, 729, 936	7, 889, 269, 283	665, 541, 627	8. 43

NATURE AND CHARACTERISTICS

Approximately 70 per cent of all commercial failures occur in the retail-trade group, according to one mercantile agency which records business failure statistics.[1] Manufacturers, wholesalers, and other traders form only a small portion of the total number. Over half of all retail failures take place among food, clothing, and furniture stores. An elimination of the evils existing in retailing would materially reduce the tremendous losses which arise as a consequence of failure. Huge savings and widespread benefits should result from a stabilization of all retail units, particularly among those where the risks appear to be most hazardous and the susceptibility to failure consequently greater. In areas and in trades where concentrated studies and efforts have been made to determine and eliminate causes of failure, results have been most encouraging. Bankruptcies have decreased, and profits to the surviving have increased beyond expectations.

The vast majority of failed concerns are small enterprises employing relatively little capital, and though listed by mercantile agencies, are given moderate or no credit rating. At least 95 per cent of all commercial failures have very moderate or no credit ratings prior to insolvency. One authority [1] states that 87 per cent of all commercial failures employed $5,000 or less capital in their enterprises. Efforts to reduce failures and losses must, therefore, evolve from a careful study and analysis of the small business.

GENERAL UNDERLYING CAUSES

Freedom of enterprise.—The unlimited and uncontested right of every individual to engage in any business regardless of personal qualification enables many to enter business whose failure is almost certain. The previous occupations and educational training of those who failed in Boston during the period covered by this study as shown in Tables 11–17 indicate that the majority lacked both experience and training in their particular business.

[1] Bradstreets.

The responsibility of selecting capable and efficient business enterprisers rests almost entirely with those who grant credit. Few enterprises can prosper without sufficient credit, and a denial of it would forestall many failures. Undoubtedly, keen competition and the insatiable desire for volume renders void many worthwhile decisions of credit grantors, which, if acted upon, would eliminate a majority of the unfit from business. An abundance of information concerning the credit worthiness of a business entrepreneur is provided by various mercantile agencies and credit bureaus to credit grantors, and is of great value in their selection of debtors. Creditors who neglect to secure adequate credit information, or who do not heed the facts contained in credit reports, permit many of the inefficient and wasteful to secure sufficient credit to operate a business, followed by almost inevitable losses to themselves.

Intensified competition.—The ever-present speculative element involved in trade of every kind has been accentuated in recent years by a greater intensification of competition. There has been in the United States an appreciable increase during the last decade in the number of business units, somewhat greater than the increase in population. The final census reports reveal that approximately 2,000,000 concerns are engaged in manufacturing, wholesaling, or retailing. The total number of retail stores in 1929 was slightly less than 1,550,000, or 12.6 stores for every 1,000 inhabitants. Approximately 170,000 wholesale firms and 211,000 manufacturing concerns were engaged in the competitive struggle for profits.

Although there has been an increase in the number of competing businesses, greater significance is attached to the increased intensity of competition prevailing in every branch of economic activity. The existence of surplus producing and distributing facilities is evident through the whole of our economic system. Consequently, the consumer's dollar is being sought by a larger number of business units, and with much greater zeal and effort than ever before. The ingenuity of manufacturers and merchants in creating new products and devising new methods of distribution has resulted in prosperity for some and failure for others. Conditions existing during the last decade have caused manufacturers and merchants in most instances to seek a larger volume of sales by creating, stimulating, and satisfying demand, without due regard for the increased expenditures resulting from their efforts. To attract a greater number of buyers, prices have been reduced, and the increased volume of sales necessary to offset the decrease in unit profit margins has not been sufficient in many cases to meet the requirements of profitable operation. Profits are based on the production and distribution costs paid by the average firm, and during a period of depression the subaverage business is generally eliminated.

Business changes and improvements.—In every phase of economic activity the process of progressive change is never ending. Although the individual business man has little influence in determining or controlling any or all of the many changes taking place, he should be intelligent with respect to them, and particularly he must be intelligent with respect to the changes taking place in his own field of endeavor. In this modern competitive business world, new inventions, ideas, and methods are constantly being forced into use. The methods of production and of distribution undergo frequent revolu-

tionary changes, and the consequent effects are disastrous to many business men who are slow to heed and to conform to inevitable economic transitions.

Some changes apparently have no conceivable bearing upon the enterprises effected, and the business man must always be alert to discern and understand the variable factors over which he has little or no control. Certain happenings result in price changes; some brought on by his own actions, some brought about by the action of his competitors, and some forced upon both him and his competitors by events that are shaped by the collective but unconscious efforts of all consumers. The business executive whose training and experience give him a static conception of business problems can have but little hope of success. The slightest misjudgment of the actual course of events often means for the business but one outcome, failure.

Ease of securing credit.—Liberal creditors who are influenced in their decisions by an insatiable desire for a larger volume of business actually encourage many undeserving debtors to accept an unwarranted amount of credit. A close analysis of the causes of bankruptcy discloses the fact that overbuying is a frequent cause. Every debtor is confronted with the problem of accepting or rejecting what appears to be an endless succession of "attractive propositions" presented by persuasive salesmen who insist that the signature to the order is all that is necessary to complete the transaction. The inefficient credit manager, when confronted with the debtor's order, will probably accept the assurance of the salesman that the account is a very desirable one which, if rejected, will undoubtedly be accepted by competitors. Many of the necessary factors which should be considered in the granting of credit are ignored to prevent competitors from securing the order. Another hindrance to effective credit management is the fear of losing a debtor's good will, which restrains many credit managers from making a thorough investigation before extending credit. Most debtors, especially the poor risks, resent a thorough investigation of their affairs and competency which would prove the inadvisablity of accepting the credit offered by enthusiastic salesmen striving only for larger sales commissions.

Even under the most favorable circumstances there is an unavoidable trade mortality, but the ease of securing credit has increased the rate by making it possible for many incompetent and dishonest merchants to venture into business.

Ease of discharging debts.—The Department of Justice inquiries and studies of existing bankruptcy laws and their administration has revealed that the ease of wiping out debts through the assistance of the bankruptcy courts has resulted in a condition threatening the foundation of our credit structure. Regardless of the causes of failure, of how the property was wasted, or of the responsibility for gross neglect and culpable conduct, the bankrupt is almost inevitably granted a discharge without inquiry or opposition (98 per cent of the commercial bankrupts are granted discharges). Thus, those who fail are allowed and encouraged to secure more credit and create further losses.

It is logical to presume that a larger number of persons will seek to relieve themselves of burdensome debts if there is no fear of being held accountable for their acts. Creditors, granted the power to

subject the bankrupts to an examination concerning their affairs, are notoriously lax in determining the guilt of a fraudulent or incapable debtor and in opposing discharges. The wholesale dissipation of wealth by the dishonest or incompetent will continue to increase until some penalty or deterrent is attached to the waste and destruction of capital. The commercial and social stigma formerly attached to failure and bankruptcy is no longer in evidence with the same degree of significance. The utter disregard of credit obligations which are voided by prompt discharge of debts without any attendant penalties or hardships are in a large number of cases being considered as justifiable achievements. The apathy of the public in general, and of creditors in particular, toward elimination of bankruptcy evils has encouraged wanton and unnecessary waste of captial by unscrupulous or unfit business men.

Since July, 1930, an exhaustive investigation has been conducted by the Department of Justice into the operations of the bankruptcy law. On February 29, 1932, the report was submitted by the President to Congress, at whose direction the investigation was undertaken. The report states that "the present bankruptcy law has failed to achieve its purposes. It has not insured a prompt and efficient realization and pro rata distribution of assets of insolvent debtors, and it has not discouraged commercial fraud and dishonesty by denial of discharges." In order that they may be presented concretely, the conclusions reached as a result of this inquiry have been embodied in proposed amendments to the existing bankruptcy law.

Business fluctuations.—From whatever aspect the causes of business failures are considered, it is illogical to ignore the cause or effect of extreme fluctuations in business activity. General business conditions during the last few years have been injurious to the economic welfare of both the large and the small business. The trend of business activity has been declining since the collapse of the stock market during the last quarter of 1929. The decline in stock and security values at that time reflected the accumulation of numerous business ailments which apparently are now being remedied. It can not be denied that the deflation in real estate values, decline in commodity prices, unemployment, contraction of credit, and huge depreciation of stock and securities values were responsible causes of failure in numerous cases during the last few years. Neither can it be denied that the majority of the total insolvencies could have been prevented under the guidance of prudent management. The business depression served only to hasten the end of those lacking the necessary requisites of success and doomed to failure from the very nature of their operations.

CONSEQUENCES

The billions of dollars lost by owners and creditors of failed concerns and bankrupt individuals form only a portion of the total resulting losses. No representative estimate of the aggregate losses resulting from failures can be made, yet it is evident, after a consideration of the widespread effects on numerous groups of individuals and our economic system in general, that such losses are incredibly large.

These losses are seriously detrimental to the public interest and to our economic welfare. Capital is wasted in unprofitable and unsuc-

cessful ventures by incompetent and incapable business men. The loss of a normal rate of interest on wasted capital must be included in the total waste which occurs in this manner and which retards the increase of our national wealth. When debts are contracted beyond ability to pay, and later are annulled in the bankruptcy courts, it is obvious that respect for private contract rights has been destroyed, and that the integrity of individuals no longer assures the payment of an honest debt. In many cases the communities in which failures occur are forced to provide food and shelter for those unable to secure employment or assistance from others. The total income of the community is decreased and the collective prosperity of its inhabitants is adversely affected. All failures involve losses which, in the final analysis, are borne by the public.

The discontinuance of a business involves a keen hardship on its employees. They are forced out of employment, and the reduction of their purchasing power—even if it is only temporary—is injurious to their welfare and to the welfare of the community in which they reside. Many are fortunate enough to find other positions, but their connection with a bankrupt concern often increases the difficulty. Many wage earners have invested in the failed enterprise a portion of their savings, which they lose in addition to their positions. The total losses suffered by employees can not be estimated, yet it is certain that they are tremendous.

It would appear that competitors of failed establishments would profit by their nonsurvival. On the contrary, they are forced to accept losses which in many cases are sufficient to wipe out profits and threaten their own solvency. The assets of a bankrupt business are sold at whatever prices they are able to command. The bankrupt sales which are being conducted in the same trading area, often in the same block, frequently prevent the maintenance of a necessary profit margin in an active business. Until the merchandise of a bankrupt business is sold, the active merchant must compete against a bankruptcy sale. An auctioneer or trustee is forced by clamoring creditors to dispose of merchandise at any price he can get. The consumer naturally buys where he can obtain the best bargain, and bankruptcy sales are well attended. The owner of an existing concern can not reduce the costs of doing business sufficiently to offset the loss of trade. His wages, rent, and other overhead costs must be paid. It is not unusual, therefore, for an otherwise stable business to become insolvent after attempting to survive in a local market demoralized by a series of bankruptcy sales at which the buyer sets the price. (Case No. 152, on page 31, is a typical example of this point.)

Owners and creditors of unsuccessful ventures suffer the greatest direct losses. The original and subsequent investments made in the business by the owner and creditors are lost. Creditors on the average in 1931, so the Attorney General of the United States reports, received less than 7 cents for every dollar they were owed by bankrupts. The losses accruing to owners and creditors of the 570 establishments discussed in this report, conservatively estimated, amount to more than $20,000,000. These losses, which occured during a period of less than nine months, are but a part of the total losses resulting from failures in one city. Insolvencies, assignments, and compositions settled outside the bankruptcy courts in Boston were not included in this report. A loss of $20,000,000 in one city in less

than one year—a fact which if considered with the indisputable evidence that a large part of this loss was preventable, forces the acknowledgment of a costly weakness in our credit and economic structure.

SUGGESTED REMEDIES

The following suggested remedies, if applied, will undoubtedly result in a reduction of commercial failures and attendant losses. The remedies suggested are not all-inclusive, but are pervasive in their practical application and need only the collective action of business men to bring about the elimination of some of the causes resulting in failure.

(1) Prevention of unjustifiable entrance into business, by extending credit only to individuals whose ability, training, experience, and other necessary requisites have been definitely determined and proved to insure qualified and competent management of an enterprise whose existence is economically justified.

(2) Discouragement of the use of bankruptcy as a method of discharging debts by amending and utilizing the existing bakruptcy law to assure (*a*) a thorough examination of every bankrupt case, (*b*) conviction of fraudulent debtors and refusal of discharge to the undeserving, and (*c*) creditors' control of bankrupt estates vested in an agency that will actively and effectively function.

PERSONAL DATA RELATIVE TO 570 COMMERCIAL BANKRUPTS

EDUCATION

Over 40 per cent of the total group of 570 bankrupts did not finish grade school. Approximately 70 per cent were not high-school graduates, although there were 145 high-school graduates in the group. Less than 10 per cent were college graduates.

It may be inferred from the above facts that lack of education in many cases was a contributing cause of failure. Knowledge and training can be acquired both in school and through experience, but the disproportionate use of either method, except in unusual cases, is not conducive to success. The majority of the bankrupts did not secure the necessary knowledge and training in school.

EXPERIENCE

Less than 18 per cent of the group who failed were engaged in the same business as owners, prior to their proprietorship of the bankrupt concerns. Only 30 per cent has ever been business proprietors prior to their entrance into the failed enterprise. Sixty-four per cent of the total group who failed were commercial employees engaged in various nonmanagerial capacities before their unsuccessful venture into business.

Those who enter business in many cases are clerks, salesmen, laborers in the building trades, factory workers, mechanics, policemen, and various other types of workers whose knowledge of business is very limited. The only capital required to establish a business in the majority of cases is the rental for the premises, an installment upon furnishings and equipment, and an advance upon merchandise purchased. It frequently happens that as the business progresses, the value of the creditor's investment therein increases as compared

with that of the debtor's. The occurrence of the slightest misfortune places the business in a precarious position, and insolvency becomes imminent. As shown in Tables 12–16, the previous experience of most of the bankrupts studied in no way fitted them for the business they entered.

AGE AND SEX

Approximately 87 per cent of the bankrupts were between 25 and 54 years of age; only 10 were less than 24 years old, and 60 were over 55 years of age at the time of their bankruptcy. There were 479 men and 19 women who were owners of the failed establishments. Three concerns were owned in partnership by men and women. Sixty-nine of the bankrupt establishments were corporations.

There appears to be no causal relation between age, sex, and business failure; the vast majority of persons engaged in business are men between 25 and 50 years of age, hence there are more failures among such individuals.

CITIZENSHIP AND BIRTHPLACE

Of those reporting on the subject of their birthplace (536), approximately 50 per cent were foreign born (although nearly 70 per cent of the immigrants were naturalized citizens) and 76 per cent of the bankrupts were of foreign parentage.

Of those born in other countries, more came from Russia than any other country, although Italy, the British Isles, and Canada were mentioned frequently.

ILLNESS AND MEDICAL EXPENSES

The number of bankrupts who stated that they were ill at one time or another during the year prior to their failure was comparatively small. Only 138 reported that they were handicapped in their endeavors by various ailments during the year preceding failure. Sickness among the members of the bankrupt's family was rather widespread, as 326 cases were reported to the examiners. Cases in which both the bankrupt and his dependents were ill, while numerous—80 cases being reported—were not sufficient in number to be considered significant. Medical expenses were in most cases low, and indicated that only in a few isolated cases were they sufficiently large to entail a hardship on the bankrupt.

The medical expenses of 75 per cent of the total group was less than $250. Eleven per cent of all reporting on the subject of medical expenses stated that they did not have any medical expenses, and less than 17 per cent had medical expenses of more than $250 but less than $500. Illness and medical expenses, therefore, with the exception of a few cases, was not an important contributing cause of failure.

NUMBER OF DEPENDENTS

The bankrupt in 80 per cent of the cases had an average-size family; that is, from one to four dependents. Ninety-six bankrupts stated that they had five or more dependents. In analyzing the causes of failure as reported by the bankrupts and their creditors, the size of the family was mentioned as a possible cause in few cases.

SUMMARY OF PERSONAL DATA

To summarize the analysis of the personal data secured on the owners of the bankrupt concerns, it may be stated that, as a group, few had more than a high-school education; a vast majority apparently had insufficient business experience; approximately half of the total group were not born in the United States; practically all were middle-aged men, with from one to four dependents. Although sickness was somewhat prevelant among the bankrupts and members of their families, the medical expenses during the year prior to bankruptcy in most cases amounted to less than $250.

CAUSES OF 570 COMMERCIAL BANKRUPTCIES

The information secured from the bankrupt debtor, his or her creditors, and the examiner of the case is the basis of the following discussion relative to causes of commercial bankruptcies. The examiners attended the bankruptcy hearings, interviewed the debtors, wrote to the creditors, examined the bankruptcy schedules, analyzed the concerns' books and records, if there were any, and considered mercantile agency reports of the concerns that were listed prior to failure. The enthusiastic cooperation of practically all persons involved in any of the 570 bankruptcies and their whole-hearted support of the project made possible the collection of the necessary and relevant facts.

A knowledge of the causes of failure secured from the experiences of the many who fail discloses the mistakes and the methods to be avoided if success is to be attained. The ruinous practices revealed in business failures must be discontinued by owners of active concerns and heeded by creditors in order to avert failures and reduce losses. The hazardous and uncertain journey to commercial success is safer if the warning signs and danger signals are known and observed. The preponderance of accumulated facts concerning business failures supports the common belief that a majority of insolvencies are preventable. An analysis and study of the causes of commercial bankruptcies by owners of active concerns and their creditors may in some cases stimulate investigations with beneficial results. A diagnosis of ailments must precede the selection and application of the remedies. The prevention of failure by the elimination of wasteful practices is an objective deserving the serious consideration of every business man.

No failure occurs which is not preceded by significant warnings. These warnings ought not to pass unheeded, and in order to recognize them promptly it is necessary to know the causes of failure. In the examination of credit information, if the principal causes are known by facts and experience to result in failure, the credit grantor can determine whether any of the causes are in evidence as affecting the applicant applying for credit. It becomes a question of recognizing the symptoms in time, and involves reasoning from cause to effect. There are various causes which interact and cumulate to precipitate a bankruptcy. It rarely happens that one cause forces bankruptcy or liquidation. In obtaining the opinions of the owners and creditors of the business that failed, there were in practically all cases several reasons given for each case.

The outstanding causes of failure portrayed in Figure 1 are the seriously considered opinions of both the creditors and owners of the bankrupt enterprises referred to therein.

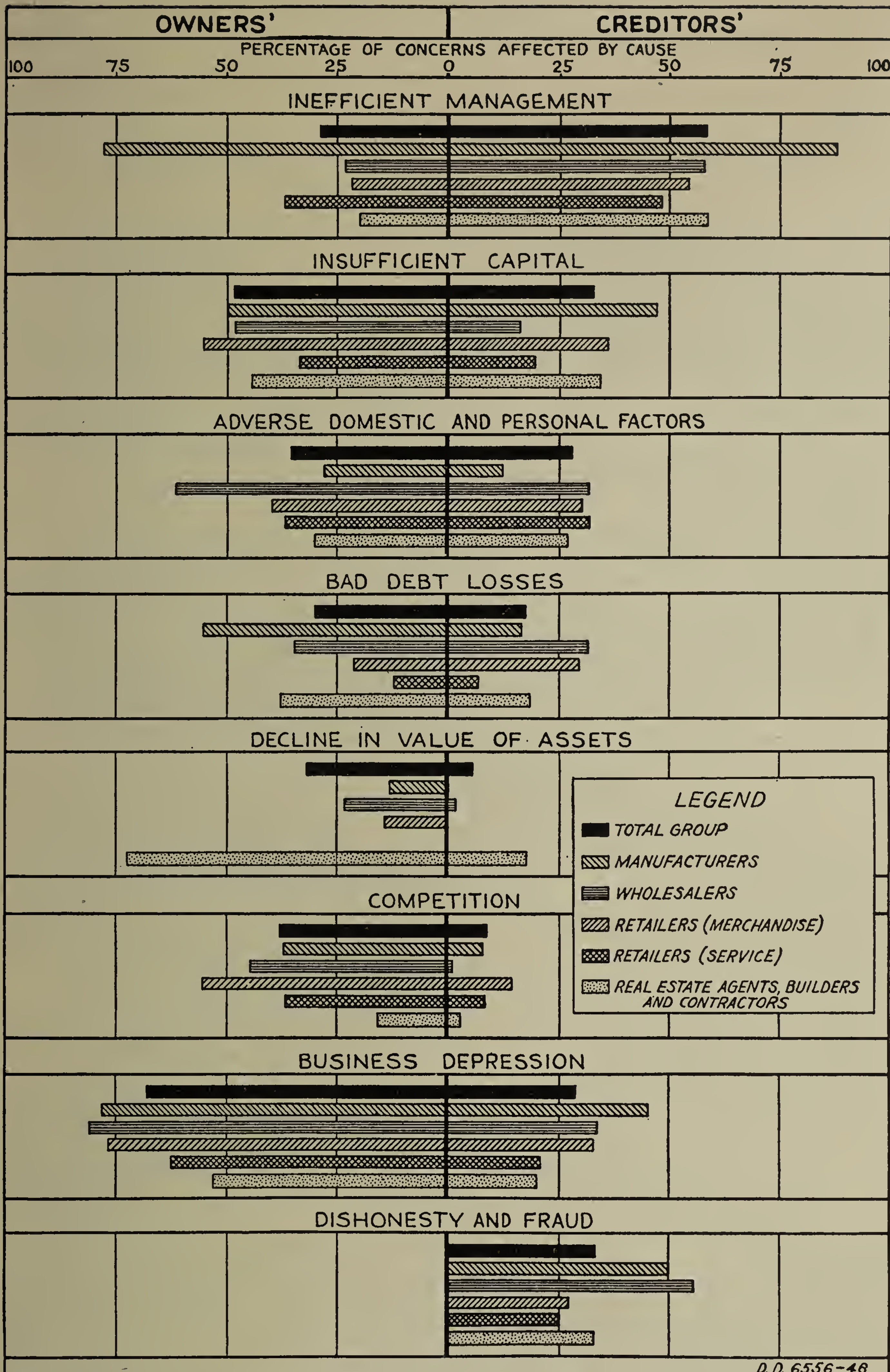

Figure 1.—Owners' and creditors' opinions of major causes of 570 bankruptcies in Boston, 1930–31

Owners' and Creditors' Opinions of the Causes of Failure in 570 Bankrupt Enterprises; Boston, Mass., 1930–31

Cause of failure (Owners' opinions)	Per cent of enterprises affected	Cause of failure (Creditors' opinions)	Per cent of enterprises affected
TOTAL GROUP			
570 ENTERPRISES		516 ENTERPRISES [1]	
Business depression	67.7	Inefficient management	58.7
Insufficient capital	48.2	Dishonestry and fraud	33.7
Competition	37.9	Insufficient capital	32.9
Adverse domestic and personal factors	35.1	Business depression	29.1
Decline in value of assets	31.6	Adverse domestic and personal factors	28.1
Bad-debt losses	29.8	Bad-debt losses	17.6
Inefficient management	28.2	Competition	9.1
Excessive overhead expenses	24.0	Excessive overhead	8.9
Poor business location	14.6	Expanded too rapidly	7.2
Losses from speculation	11.6	Decline in value of assets	5.8
Unfavorable changes in trading area	11.2	Losses from speculation	5.8
Excessive interest charges on borrowed capital.	11.1	Buying too much on credit	3.9
Expanded too rapidly	10.5	Poor business location	2.7
Losses from signing notes with recourse	9.6	Decline in rental income	2.3
Buying too much on credit	9.5	Lack of adequate books	2.1
Real estate losses	6.1	Excessive interest charges on borrowed capital.	2.1
Lack of adequate books	5.6	Unfavorable changes in trading area	1.9
Automobile-accident loss	2.5	Signing notes with recourse	1.4
Failure to carry sufficient insurance	2.3	Real estate losses	1.4
Unusual expenses	1.8	Unusual expenses	1.4
Inefficient and dishonest employees	.9	Failure to carry sufficient insurance	.7
		Automobile-accident judgment	.6
		Inefficient and dishonest employees	.6
MANUFACTURERS			
54 ENTERPRISES		48 ENTERPRISES [2]	
Inefficient management	77.8	Inefficient management	87.5
Business depression	77.8	Dishonesty and fraud	50.0
Bad-debt losses	55.6	Insufficient capital	47.9
Insufficient capital	50.0	Business depression	45.8
Competition	37.0	Bad-debt losses	16.7
Adverse domestic and personal factors	27.8	Adverse domestic and personal factors	12.5
Excessive overhead	18.5	Competition	8.3
Decline in value of assets	13.0	Expanded too rapidly	6.3
Poor business location	13.0	Buying too much on credit	4.2
Expanded too rapidly	11.1	Excessive overhead expenses	2.1
Real estate losses	7.4	Poor business location	2.1
Inefficient and dishonest employees	5.6	Inefficient and dishonest employees	2.1
Unusual expenses	3.7	Automobile-accident judgment	2.1
Automobile-accident loss	1.9		
WHOLESALERS			
52 ENTERPRISES		50 ENTERPRISES [3]	
Business depression	80.8	Inefficient management	58.0
Insufficient capital	48.1	Dishonesty and fraud	56.0
Competition	44.2	Business depression	34.0
Adverse domestic and personal factors	38.5	Adverse domestic and personal factors	32.0
Bad-debt losses	34.6	Bad-debt losses	32.0
Inefficient management	23.1	Excessive overhead expenses	22.0
Decline in value of assets	23.1	Insufficient capital	16.0
Excessive overhead expenses	21.2	Expanded too rapidly	16.0
Buying too much on credit	19.2	Competition	8.0
Real estate losses	19.2	Lack of adequate books	8.0

[1] 1,270 creditors submitted opinions on 516 enterprises; 350 creditors replied that they did not know the cause of failure of 249 enterprises.

[2] 129 creditors submitted opinions on 48 manufacturers; 33 creditors replied that they did not know the cause of failure of 18 manufacturers.

[3] 135 creditors submitted opinions on 50 wholesalers; 38 creditors replied that they did not know the cause of failure of 28 wholesalers.

Owners' and Creditors' Opinions of the Causes of Failure in 570 Bankrupt Enterprises; Boston, Mass., 1930–31—Continued

Cause of failure (Owners' opinions)	Per cent of enterprises affected	Cause of failure (Creditors' opinions)	Per cent of enterprises affected
WHOLESALERS—Continued			
52 ENTERPRISES		50 ENTERPRISES	
Losses from speculation	17.3	Losses from signing notes with recourse	6.0
Excessive interest on borrowed capital	15.4	Buying too much on credit	4.0
Expanded too rapidly	11.5	Losses from speculation	2.0
Losses from signing notes with recourse	9.6	Failure to carry sufficient insurance	2.0
Poor business location	9.6	Inefficient and dishonest employees	2.0
Lack of adequate books	7.7	Decline in value of assets	2.0
Failure to carry sufficient insurance	5.8		
Unfavorable changes in trading area	3.8		
Inefficient and dishonest employees	1.9		
Automobile-accident judgment	1.9		
RETAILERS (MERCHANDISE)			
218 ENTERPRISES		199 ENTERPRISES [4]	
Business depression	76.1	Inefficient management	54.8
Insufficient capital	55.5	Insufficient capital	36.2
Competition	55.5	Business depression	33.2
Excessive overhead expenses	40.8	Adverse domestic and personal factors	30.7
Adverse domestic and personal factors	39.9	Dishonesty and fraud	27.1
Poor business location	28.0	Bad-debt losses	16.6
Unfavorable changes in tradnig area	24.3	Competition	14.6
Inefficient management	21.6	Excessive overhead expenses	13.1
Bad-debt losses	21.1	Poor business location	5.5
Decline in value of assets	14.2	Buying too much on credit	4.5
Excessive interest charges on borrowed capital	14.2	Losses from speculation	3.5
Buying too much on credit	11.9	Unfavorable changes in trading area	3.5
Losses from signing notes	11.0	Expanded too rapidly	2.5
Expanded too rapidly	9.6	Real estate losses	2.0
Lack of adequate books	7.8	Lack of adequate books	2.0
Real estate losses	7.3	Losses from signing notes with recourse	1.0
Losses from speculation	4.1	Excessive interest charges on borrowed capital.	.5
Automobile-accident judgment	2.3	Automobile-accident judgment	.5
Failure to carry sufficient insurance	1.8	Unusual expenses	.5
Unusual expenses	1.4		
RETAILERS (SERVICE)			
66 ENTERPRISES		56 ENTERPRISES [5]	
Business depression	62.1	Inefficient management	48.2
Inefficient management	56.4	Adverse domestic and personal factors	32.1
Adverse domestic and personal factors	36.4	Dishonesty and fraud	25.0
Competition	36.4	Business depression	21.4
Insufficient capital	33.3	Insufficient capital	19.6
Excessive overhead expenses	33.3	Expanded too rapidly	16.1
Expanded too rapidly	19.7	Excessive overhead expenses	10.7
Poor business location	15.2	Competition	8.9
Bad debt losses	12.1	Bad debt losses	7.1
Losses from signing notes with recourse	10.6	Real estate losses	5.4
Failure to carry sufficient insurance	9.1	Unusual expenses	5.4
Buying too much on credit	9.1	Poor business location	3.6
Real estate losses	7.6	Failure to carry sufficient insurance	3.6
Automobile-accident judgment	7.6	Buying too much on credit	3.6
Excessive interest charges on borrowed capital.	7.6	Losses from speculation	3.6
Losses from speculation	6.1	Unfavorable changes in trading area	3.6
Unusual expenses	3.0	Automobile accident judgment	1.8
Unfavorable changes in trading area	3.0	Excessive interest charges on borrowed capital.	1.8
Inefficient and dishonest employees	1.5		

[4] 480 creditors submitted opinions on 199 retail merchandise stores; 136 creditors replied that they did not know the cause of failure of 94 retail merchandise stores.

[5] 118 creditors submitted opinions on 56 retail service establishments; 47 creditors replied that they did not know the cause of failure of 33 retail service establishments.

Owners' and Creditors' Opinions of the Causes of Failure in 570 Bankrupt Enterprises; Boston, Mass., 1930–31—Continued

Cause of failure (Owners' opinions)	Per cent of enterprises affected	Cause of failure (Creditors' opinions)	Per cent of enterprises affected
REAL ESTATE AGENTS OR DEALERS, BUILDERS, AND CONTRACTORS			
180 ENTERPRISES		163 ENTERPRISES [6]	
Decline in value of assets	72.2	Inefficient management	58.9
Business depression	52.8	Insufficient capital	34.4
Insufficient capital	44.4	Dishonesty and fraud	33.1
Bad debt losses	37.8	Adverse domestic and personal factors	27.0
Adverse domestic and personal factors	30.0	Business depression	20.2
Losses from speculation	24.4	Bad debt losses	18.4
Inefficient management	20.0	Decline in value of assets	17.8
Competition	15.6	Losses from speculation	12.3
Excessive interest charges on borrowed capital.	10.6	Expanded too rapidly	7.4
		Decline of rental income	7.4
Losses from signing notes with recourse	10.6	Excessive interest charges on borrowed capital.	5.5
Expanded too rapidly	7.8		
Buying too much on credit	6.7	Competition	3.1
Lack of adequate books	6.1	Buying too much on credit	3.1
Unfavorable changes in trading area	3.9	Lack of adequate books	1.8
Excessive overhead expenses	2.8	Unusual expenses	1.8
Unusual expenses	1.7	Excessive overhead expenses	1.2
Automobile accident judgment	1.1	Losses from signing notes with recourse	1.2
		Failure to carry insurance	.6
		Racial changes in the neighborhood	.6
		Failure to carry sufficient insurance	.6

[6] 428 creditors submitted opinions on 163 real estate agents, dealers, builders, and contractors; 96 creditors replied that they did not know the cause of failure of 76 in this group.

INEFFICIENT MANAGEMENT

The part which management plays in the success or failure of an enterprise is obviously a leading one. The efficiency of management should be the foremost criterion of credit worthiness. Its technique lies partly in the science of accountancy. Accounting records reveal the inefficient parts of a business and are a necessary guide in formulating policies for reducing the costs of doing business. The data of accounting are primary requisites for the directive thinking of business men and the utmost utilization of their managerial ability which can be acquired only through training and experience, and, in general, is the basis of every successful business.

The lack of efficient management is a responsible cause of failure in the vast majority of unsuccessful enterprises. On the basis of accumulated facts—both in this and in other studies—inefficient management is the cause of more commercial failures than any other single cause. Too many persons venture into business without a true valuation of their own abilities and a knowledge of methods required to conduct a business profitably. There is no effective method at present of preventing the unqualified from entering business, although the need is both apparent and pressing. It does not appear difficult to sell goods for more than they cost, and "running a store" seems easy. But many fail, and the high mortality rate in business reflects the absence of the qualities needed to succeed in many cases and the difficulty of conducting a business profitably.

The owner of a small establishment must possess diversified abilities. In the individual type of business the owner and manager are usually one and the same person, who carries on the business with

his own brains and upon his own responsibility. He is generally denied the benefits of specialized assistance. His concern may be sufficiently large to consume his own efforts and time, but generally too small to warrant the salaries demanded by the specialists in purchasing, merchandising, accounting, financing, personnel, credit, and other business functions. The owner of a small enterprise, to succeed, must necessarily be more or less an expert in each of the major phases of his business. A merchant may be a capable buyer but lack ability to sell his goods at a profit, or he may be both a good buyer and aggressive merchandiser, yet unable to grant credit wisely, and it often happens that a merchant is a capable buyer, merchandiser, and credit man, but an incapable financier.

Unfortunately, many who have neither the requisite ability nor the training do not usually discover their shortcoming; sometimes not even after they have been through the bankruptcy court. A lack of ability in any of the major functions of business is an indication of probable failure.

One evidence of efficient management is adequate accounting records; and one way in which some light may be thrown on the efficiency of management is to inquire into the manager's education and experience. The following table shows what proportion of the total number of failures studied were caused by inefficient management, in the opinions of the managers themselves and also of the principal creditors, and the prevalence of poor accounting systems and the lack of scholastic training.

Occupation	Inefficient management principal cause of bankruptcy, in the opinions of the—		Accounting records			Education	
	Bankrupt	Principal creditors	Number reporting	No records	Inadequate records	Number reporting	Did not complete high school
	Per cent	*Per cent*		*Per cent*	*Per cent*		*Per cent*
Manufacturers	77	87	53	22	28	54	78
Wholesalers	23	58	52	27	38	52	71
Retailers (merchandise)	22	54	215	52	31	218	66
Retailers (service)	36	48	60	50	26	66	63
Real-estate agents or dealers, builders, and contractors	20	59	169	67	20	180	68
All groups	28	58	549	51	28	570	68

The various unrelated occupations engaged in by the owners prior to their entrance into the bankrupt business indicates that the majority had little or no experience in the particular business they entered. (See Tables 12–16.)

The following cases indicating inefficient management are typical of many others.

No. 315.—The bankrupt in this case was an operator of a hardware and paint store who did not graduate from grade school and started business with $1,000 borrowed from friends in 1918. He accepted a piece of real estate in payment of a $1,000 account in 1928, which he lost because he could not pay the taxes. He did not keep books and never took inventory of his stock. For three years prior to bankruptcy, he experienced difficulty in paying his bills. He bought a new automobile for $1,000 in 1926, which was sold at auction in 1930 for the

balance owing on it. In the year before bankruptcy he had two robberies, which were not covered by insurance. All principal creditors gave as the major cause of failure inefficient management. One creditor mentioned that the debtor's father had failed several times. This unsuccessful merchant gave general business depression as the principal cause of his bankruptcy.

No. 419.—This case involved a coal, wood, and masons' supply business which had been operated for 20 years. Upon the death of the former owner, the business was inherited by his sons. It was acknowledged by the owners that the business was inefficiently managed. Credit was granted indiscriminately. Goods were sold without sufficient margin of profit. Because a large amount of capital was tied up in uncollectable accounts receivable, the owners experienced difficulty four years prior to bankruptcy in paying their bills. The records indicated continued delivery of merchandise to patrons who owed past-due accounts. Investments in securities were unprofitable. Dissension among the brothers who owned the business militated against the business. The ramifications of the dissipation of the inherited estate were many and complicated. All of the six principal creditors giving opinions stated that inefficient management was the primary cause of failure.

No. 113.—This case involved a wholesale and retail hardware and building-supply concern which was grossly mismanaged, according to creditors. Accounting records for the three years preceding bankruptcy revealed the following data:

Item	1927	1928	1929
Net sales	$588, 049. 81	$593, 570. 69	$551, 161. 75
Cost of goods sold	420, 197. 45	391, 413. 42	489, 964. 97
Gross profit on sales	167, 852. 36	202, 157. 27	61, 196. 78
Operating expenses	165, 588. 26	164, 918. 61	153, 358. 16
Net profit or loss on operations	+2, 264. 10	+37, 238. 66	−92, 161. 38
Bad-debt losses	1, 269. 18	18, 066. 85	12, 674. 92
Other administrative expense	17, 614. 00	17, 892. 01	20, 316. 78
Profit or loss	−16, 619. 08	+1, 279. 80	−125, 153. 08
Other income	3, 790. 82	3, 795. 22	5, 272. 17
Total profit or loss	−12, 828. 26	+5, 075. 02	−119, 880. 91

Decline in inventory values during 1929 caused a decrease in gross profit to a point below operating expenses. Bad-debt losses in 1929 amounted to 10.7 per cent of credit sales, and operating expenses were not sufficiently reduced to offset the decline in gross profit. Sales, office, and administrative salaries amounted to approximately $95,000 a year, and during the last year (1929) salaries alone exceeded gross profit by $35,000. Ten principal creditors submitting opinions on the case stated that the decline in value of inventory, unwise extension of credit, high operating and overhead expenses, and inefficient management were the major causes of failure.

BUSINESS DEPRESSION

The statement commonly and carelessly made in recent years that failures are accounted for by the "business depression" is in a large measure incorrect. During the years 1927 and 1928, a period of boom prosperity in the opinions of many, approximately 47,000 concerns failed with a loss to creditors.[2] During 1929 and 1930, a period in which the characteristics of a depression were in evidence, slightly over 49,000 failures occurred.[2] These periods of prosperity and depression—two extremes of the business cycle—fail to disclose any pronounced difference in number of business failures. The large number of failures occurring prior to 1929 must be attributed to something other than "business depression."

Every business-failure study made in the past has proved that other causes were more fundamental and influential than business depression. It is probable that the larger proportion of failures result from bad judgment shown at the very inception of the busi-

[2] Dun's reports.

ness. The greater number of enterprises which are launched and later fail have no economic justification, and lack the essentials of successful operation. In most cases it could hardly be expected that anything short of a miracle would enable them to avoid failure, and a temporary lull in commercial activities serves only to accelerate the movement toward an inevitable end.

The following table shows the percentage of concerns in which business depression was given as a principal cause of failures:

Occupation	Per cent of concerns affected by business depression, in the opinion of the—	
	Bankrupt	Principal creditors
Manufacturers	77	44
Wholesalers	80	34
Retailers (merchandise)	76	33
Retailers (service)	62	21
Real-estate agents or dealers, builders, and contractors	52	20
All groups	67	29

The length of time during which the bankrupts experienced difficulty in paying creditors is shown in Table 10, page 42, which indicates that many were financially weak before the depression.

Typical cases in which business depression was given as a cause of bankruptcy follow:

No. 173.—This case involved a corporation manufacturing dresses, which started in business in 1923 with $11,000 paid-up capital. In 1926 the authorized capital stock was increased and by 1927 they had $81,000 paid in. Garments were made to sell for $16.50 to $60 a dozen, of which 60 per cent was cost price completed, and 40 per cent allowed for selling expenses. The general policy was to allow $2 to $5 a dozen for overhead. The owners of the business claimed that business depression was the major cause of failure. Yet in the years 1926 to 1930 goods were frequently sold below cost. An analysis of the accounting records revealed that in 1926 net sales were $44,815, on which a loss of $32,000 was sustained. In 1929 gross sales were $30,415 and returns and allowances were $6,030, or 20 per cent. Cost of goods sold was $24,289, selling and administration expenses were $12,000. Total expenses plus cost of goods were, therefore, $11,904 more than net sales. The net operating loss was $14,031 for 1930, the last year in business.

It appears that this concern operated without sufficient knowledge of total operating costs and that such costs were greater than they should have been to allow sufficient margin between sales and cost of sales to absorb selling and admisistration expenses and leave a margin of net profit. While the officers of the corporation thought that business depression was the principal cause of their bankruptcy, it is obvious that other more fundamental reasons caused the failure.

No. 237.—The bankrupt in this case owned and operated a soft-drink manufacturing concern, having entered the business after 12 years' experience as a plumber. He stated that he had never attended school and did not know how to keep books. The concern was forced into bankruptcy three years after it started, although the owner stated that he was unable to pay his current bills after the first year of operation. Installments on bottling machinery bought for $8,000 could not be paid because sales during the last year of operation only amounted to approximately $1,000, and of this amount slightly over $200 was lost in bad debts. The bankrupt gave as his opinion that business depression was the primary cause of his failure. One creditor stated "bankrupt could only sign his name, had no experience in this business, and no capital of his own. His failure was a foregone conclusion."

No. 78.—Less than five months after he entered the hotel business the bankrupt in this case sought release from his debts in the bankruptcy court. A $4,500 equity in a home was given as a down payment on a 60-room hotel which had

never been profitable. Since there was no available working capital, it was necessary to secure the financial assistance of several creditors who made possible the opening and operation of the hotel. After four months' operation, in an effort to secure guests for his hotel, the unsuccessful owner (who had formerly been the proprietor of a restaurant which he discontinued because of inability to make a profit) engaged a high-priced orchestra and advertised extensively. No one came to the dance on the "grand opening night," or any night thereafter during the first week, and the orchestra, which had not been paid, threatened to leave, but were persuaded to remain another week after the bankrupt promised free lodging. At the beginning of the next week a sheriff appeared and attached the property on behalf of certain creditors who had lost faith in the enterprise. The orchestra left, the creditors secured a judgment, the holders of the first mortgage on the hotel foreclosed, and within five months after he started in the hotel business the former owner was in the bankruptcy court. He stated that business depression was the principal cause of his failure.

INSUFFICIENT CAPITAL

Very few business failures studied seemed to have resulted primarily from lack of capital. Insufficient capital is merely an indication of the fact that the concerns attempted to do too much business on credit. The inability to convert merchandise and receivables into cash with which to pay operating costs and credit obligations as they accrue is the usual cause, rather than lack of capital. Frequently a business organized without sufficient capital and lacking the necessary margin of financial safety is wiped out when it is unable to overcome adverse conditions. Many concerns carry on operations inconsistent with their resources or prospects for profits, and when expected sales do not materialize, a shortage of funds results. Without adequate reserves to meet creditors' claims, these concerns are forced to secure an extension of credit or to liquidate their business for the benefit of creditors. In such cases, the owners or managers generally state that the cause of failure was "lack of capital," whereas the real cause was the lack of ability to manage effectively the capital available for use.

It is generally true that most concerns fail because of the wrong way in which the owners or managers use the capital they have, rather than because of any lack of capital. The average concern usually gets into difficulties because of granting and accepting too much credit. The abuse of credit is unquestionably an outstanding cause of failure in a large number of the cases included in this report, rather than insufficient capital.

The following table shows the percentage of concerns affected by lack of capital:

Occupation	Per cent of concerns affected by insufficient capital, in the opinions of the—	
	Bankrupt	Principal creditors
Manufacturers	50	48
Wholesalers	48	16
Retailers (merchandise)	55	36
Retailers (service)	33	19
Real-estate agents or dealers, builders, and contractors	44	34
All groups	48	33

Upon analyzing the data obtained, it was found that a majority of the bankrupts started in business with a small amount of capital. Of the 521 reporting on the subject of capitalization at organization, 78 per cent had $5,000 or less invested in the business. As most of

the concerns were apparently inefficiently managed, a larger amount of capital would have merely delayed the bankruptcy. The following case is typical of many others.

No. 125.—The individual concerned in this case was the owner of a retail furniture store started in 1928 with $1,500 capital. In the year prior to bankruptcy, the sales were $25,000, of which $23,000 was on credit. At date of bankruptcy, the owner owed $14,000 debts which had been accumulated in two years; only $1,107 was realized from the sale of the assets. A fire of doubtful origin occurred in his store during the year prior to bankruptcy. This merchant had failed in another State less than six years previously, but had never been discharged. He disposed of notes secured by furniture, which he sold on the installment plan, for 25 per cent to 40 per cent discount in order to raise additional capital. The bankrupt stated that insufficient capital was the cause of failure.

BAD DEBT LOSSES

The entire credit system is a delicate commercial mechanism, easily disrupted by injudicious usage. The failure of one individual or concern to pay just debts on the due date adversely affects, however remotely, all other members of the vast credit system. The consumer must pay the retailer, and the retailer must pay the wholesaler, before the latter can pay his creditors. Upon the soundness of credit granting by the retailers, the wholesalers, the manufacturers or the bankers depends the soundness of the entire mercantile structure.

A true appraisal of ability and character is necessary in every credit transaction. The many errors made are reflected in the appalling credit losses and business failures. A bad-debt loss is usually nothing more nor less than the result of an error in judgment. A consumer or the operator of a business is no longer a mysterious stranger in the commercial community. Evidences of a debtor's capacity, character, and capital can be secured from many authentic sources. The negligence of a creditor to base credit extension on facts systematically gathered from all available sources may result in his own failure and the failure of others.

Securing an increased volume of sales by indiscriminate credit granting is frequently ruinous. Promiscuous credit extension during times of easy money has brought about the undoing of many concerns, which formerly had impeccable reputations for high commercial and credit standards. Their financial structure was so weakened by unusual credit losses that continued operation was impossible. Loose and inefficient credit methods are prevalent, particularly in small retail establishments, and unless they are improved, bad-debt losses will continue to be a principal cause of failure.

The following table shows the percentage of concerns affected by bad-debt losses:

Occupation	Per cent of concerns affected by bad-debt losses, in the opinion of the—	
	Bankrupt	Principal creditors
Manufacturers	55	16
Wholesalers	34	32
Retailers (merchandise)	21	16
Retailers (service)	12	7
Real-estate agents or dealers, builders, and contractors	37	18
All groups	29	17

The following table shows the relation between the bad-debt losses of bankrupt firms studied and those included in the national credit surveys of the Department of Commerce:

Occupation	Bad-debt losses as per cent of total credit sales	
	Bankrupt firms	All firms
Manufacturers	3.3	[1] 0.5
Wholesalers	3.8	[1] .6
Retailers (merchandise)	6.4	.6
Retailers (service)	14.5	
Real estate agents or dealers, builders, and contractors	6.7	(2)
All groups	5.6	(2)

[1] Computed on total net sales. [2] No comparable figure available.

Only 5.5 per cent of the 564 bankrupt enterprises reporting used credit bureaus.

The following are examples of credit losses causing failure:

No. 649.—X Radio & Electrical Manufacturing Corporation was organized in 1920, with a capital of $4,500, and was very prosperous for a few years. In 1927, a new corporation was organized and capitalized for $455,000, which included the assets of another company. The company lost $125,000 in the bankruptcy of five other radio companies during the four years preceding their own failure. This large loss resulting from the insolvency of others did not include other bad-debt losses, which were very high. During the last year of operation bad-debt losses amounted to 10.5 per cent of credit sales. One creditor stated, "It is our belief that the bankruptcy of the corporation was due to the ever-changing conditions in the radio industry and the insolvency of several radio concerns which owed the corporation large sums of money. Before loud speakers and battery radio sets were replaced by complete electrical unit sets the company was very successful but had difficulty in competing with larger companies on a price basis when the change to the new type of radio was made."

No. 406.—A retail women's wear shop, operated as a corporation, was owned by one individual who had been in this line at various locations for 16 years. Total sales for the last year in business were $155,000, of which $125,000, or 80 per cent, was on a credit basis. The bad-debt losses for the last year of operations were 50 per cent of the credit sales. The scheduled assets exceeded $40,000, of which $21,000 were accounts receivable; liabilities listed were $26,000, and of this amount $24,000 was owed to 140 wholesalers. An analysis of the accounting records for the last year of business showed total sales of $155,000, a gross profit of $25,000, total operating expenses of $56,000, and a $31,000 net loss.

No. 575.—The corporation in this case, organized in 1924 and capitalized at $50,000, operated a retail jewelry store. The management was experienced in this line; although one of the officials had failed previously. The gross sales for the last year of operations amounted to $132,000, of which $97,000, or 73 per cent, were deferred-payment sales. Returns and allowances were $32,000, or 24 per cent of total sales. The average returns and allowances for this type of business during the same period, as shown by the retail credit survey made by the Department of Commerce, were 8 per cent of total sales. Creditors filed an involuntary petition against the corporation because of its inability to meet obligations, as most of the working capital was tied up in accounts receivable. In a balance sheet showing their condition early in 1931, four months prior to bankruptcy, the accounts receivable amounted to 84 per cent of the total current assets. Profit and loss statements covering the last year of operations, 1930, showed a $31,000 gross profit. The selling expenses of $36,000 were 11 per cent greater than gross profits. Administration and collection expenses were unusually high, but were offset slightly by additional income such as interest, purchase discounts, and miscellaneous items, leaving a net loss of $24,000 for the year.

The officers of the bankrupt corporation and principal creditors were both agreed that unwise extension of credit and consequent bad-debt losses were the major causes of failure.

COMPETITION

Competition determines the fate of industries and the firms that survive within an industry. The most efficient and well-operated concerns generally survive. During the last decade, a multitude of firms have been eliminated during the process of the revolutionary changes that have taken place in practically every industry.

Many concerns have broadened the sphere of their activities, numerous manufacturing firms now own retail outlets, and a great number of wholesale establishments are at present engaged in manufacturing and retailing. Examples of retailers who have extended their activities to include the functions of manufacturing and wholesaling are becoming numerous. The growth of cooperative organizations in practically all lines of trade has been rapid. New products have been created, new methods devised, and new types of businesses established to meet the changing conditions. Many concerns are now manufacturing and selling merchandise which even a few years ago would have appeared to be an unprofitable and unwise procedure.

In practically every phase of commercial activity, expansion has extended beyond present needs, and the problem of securing sufficient business to provide a profitable existence is difficult. The entrance of many unqualified and inefficient business venturers into commercial activities has accentuated the condition.

Competition serves to eliminate the inefficient and unqualified from business, but unfortunately their places are filled by others equally inefficient and unqualified. No effective method of selecting business enterprisers has yet been created, although there is sufficient evidence to prove the need. Thousands of business ventures are launched by optimistic individuals without a proper valuation of the existing competition or their own abilities. The unnecessary duplication of retail stores—which fail in larger numbers, comparatively, than any other type of enterprise—is widespread and prevents many efficiently managed concerns from making a legitimate and just profit.

There are many examples of several stores striving to secure a share of business in a trading area whose total available business is insufficient to warrant the existence of more than one store. If four drug stores are within one block of each other, each endeavoring to obtain all of the available volume of business, which is inadequate to support any two of them (a not uncommon occurrence), the advent of another is fraught with danger to all, and to succeed, the newcomer must be well fortified with resources and endowed with unusual abilities. Generally, it is the newcomer who fails to survive, but frequently the old, established firms, struggling with antiquated methods and relying on past achievements, fail to meet the pace set by a new and aggressive competitor utilizing modern methods in the operation of his business.

Lack of sufficient ability, resources, and opportunity to overcome existing competition is a frequent cause of failure, but in many other cases the inability of certain established concerns to match the progressive activities of new and better qualified competition is a cause of failure.

The following table shows the percentage of concerns affected by competition:

Occupation	Per cent of concerns affected by competition, in the opinion of the—	
	Bankrupt	Principal creditors
Manufacturers	37	8
Wholesalers	44	8
Retailers (merchandise)	55	14
Retailers (service)	36	8
Real estate agents or dealers, builders, and contractors	15	3
All groups	37	9

The following cases are examples of bankruptcies in which a major cause was competition:

No. 184.—This bankrupt auto accessory and tire business started as a partnership in 1924 with $700 capital. Internal dissension arose in 1928, and for $1,500 one partner purchased the other's interest. The retiring partner was experienced in the business and was a good manager. The new owner had been a tire salesman but had no managerial experience. The $1,500 payment so depleted his operating capital that there was no cash left for operating expenses. He was unable to improve his store or to reequip it to meet the new competition of a well-equipped modern station. Two years before his bankruptcy another competitor, a chain store which sold tires and batteries on the installment plan, opened a branch in the neighborhood. The inability of the bankrupt to sell on the installment plan because of lack of capital resulted in a further loss of sales. Receipts from his vulcanizing business dropped when the price of tires was reduced, and the invention of the electric radio adversely affected his battery-charging business. Parked cars in front of a near-by chain grocery store obscured his place from view. Lacking capital, experience, and equipment, he was unable to meet competition, which he stated was the principal cause of his failure.

No. 609.—The roofing and sheet-metal contractor in this case had been in business for 18 years. The business, capitalized at $12,000, appeared to be well organized and efficiently managed, with a complete accountancy system. During the last year in business, with 20 men on the pay roll, net receipts were $81,000, which was below normal. In March, 1929, creditors accepted long-term notes in payment of their accounts. The general practice of this bankrupt had been to figure jobs on a cost-plus-10-per-cent basis. As building activities were reduced, competition became keener, and the regular practice was discontinued. Many large contracts were accepted below costs. The bankrupt hoped to secure a large contract on which he could make sufficient profit to offset his accumulated losses. Scheduled assets amounting to $5,200 were exceeded by liabilities of $40,000, which were incurred during the last year of operation. He gave competition and business depression as his causes of bankruptcy.

No. 590.—The creditors stated that the bankrupt in this case was hopelessly ignorant and practically illiterate. In 1923, with $3,500 of his own money and $1,500 borrowed from friends and relatives, he opened a storage garage. Before entering this business, he had been a produce peddler for 15 years. He purchased a garage building for $52,000, giving a first mortgage of $30,000 at 6 per cent, and a second mortgage of $21,000 at 6 per cent plus 5 per cent bonus. He reduced this slightly but had to put a third mortgage on it after a year or so for $3,000 at 6 per cent plus 5 per cent bonus to pay his taxes of $1,900. He also purchased a home which was assessed at $1,500, and had a $1,500 first mortgage on it. He placed a $600 second mortgage at 8 per cent interest on his home to pay for some repairs. The total sales for several years prior to bankruptcy averaged $2,400 a year. The taxes on his garage alone were $1,400 a year. He had six members of his family totally dependent on him. For two years prior to bankruptcy he had experienced difficulty in paying his creditors, and attempted to make a settlement of 20 cents on the dollar, which was not accepted, so he went into bankruptcy

owing $18,000. He stated that competition of a larger storage garage across the street was his principal cause of failure, and excessive overhead the next most important cause. He is now peddling produce again. From an analysis of the case and the opinion secured from the creditors, this case appears to be an unjustifiable entrance into business.

No. 386.—The bankrupt involved in this case, a naturalized citizen who started a delicatessen store in 1921, stated that he had never been to school. At the inception of the business the owner invested $500 in addition to $1,000 provided by creditors. Prior to his venture into business, he had been a waiter in restaurants. While conducting his delicatessen business he branched out into the dry-cleaning business, and at one time had three stores. The bankrupt claimed that competition and business depression were the principal causes of his failure. An analysis of the data concerning this merchant revealed that he was not equipped with education or experience to withstand either competition or a depression. At no time during his operations did he effectively manage his business or know whether he was making a profit or not, as he did not keep any accounting records and never took inventory.

ADVERSE DOMESTIC AND PERSONAL FACTORS

There are many influences which affect or determine the degree of success or failure of an individual in business. Numerous bankrupts stated that their inability to overcome bad personal habits was the primary cause of failure. Extravagance, intemperance, indolence, gambling, and other related habits were frequently mentioned by the debtors as the origin of their difficulties. In some instances members of the bankrupt's family were at fault, and their wasteful habits ruined the business. The habits of the principals of a business and members of their families often escape the attention of credit grantors —with disastrous consequences.

Other adverse personal and domestic factors affecting a business include illness and medical expenses. Many owners of small concerns operating without financial reserves are forced into bankruptcy as a consequence of prolonged sickness and accumulated doctor bills. The health of a business man is an important determinent of his success. It is not necessary to subject a credit applicant to a physical examination in order to determine his credit worthiness, but to ignore obvious evidences of ill health is to disregard an indication and warning of probable failure.

The following table shows the percentage of concerns affected by adverse domestic and personal factors:

Occupation	Per cent of concerns affected by adverse personal factors, in the opinion of the—	
	Bankrupt	Principal creditors
Manufacturers	27	12
Wholesalers	38	32
Retailers (merchandise)	39	30
Retailers (service)	36	32
Real-estate agents or dealers, builders, and contractors	30	27
All groups	35	28

Illness and large medical expenses no doubt were contributing causes of failure in a few instances, but the majority of the 529 reporting on these subjects were affected to a greater extent by other

causes. The number of dependents, the size of the family, and family expenses, were not important contributing causes of failure.

To cite a few cases in which adverse domestic and personal factors appeared:

No. 155.—This case involved a retail shoe store, the proprietor of which stated that he came to this country in 1902 and became naturalized. Prior to opening his shoe store, he had been employed in a dry-goods establishment and for a short time had operated a hardware store. The wife of this merchant was a permanent cripple as a result of a serious accident on an elevated train. Medical and litigation expenses amounted to over $20,000 in six years. His own medical expenses for the last year in business were $450. Their home, in the wife's name, was assessed at $7,500 and had a market value of $9,000. During the six years of trouble, four mortgages were placed on the home. Both the proprietor of the store and his wife filed petitions in bankruptcy.

No. 180.—In this case the owner of a retail shoe store started in business after 15 years' experience as an operator of a machine in a shoe factory with $6,000 in cash which he had won in a horse-race lottery. The bankrupt was foreign born and not naturalized, and had never attended school. No accounting records were maintained nor inventory taken during the year and a half he was in business. The purchase and maintenance of an expensive automobile, in addition to heavy losses incurred in gambling, were sufficient to wipe out the meager profits of an inefficiently managed business. Bankruptcy appeared to be the only available means of being released from the claims of creditors. In the 18 months that this merchant was in business, he lost his original investment of $6,000 and owed merchandise creditors almost $11,000, according to his bankruptcy petition. There were 22 merchandise creditors listed in the bankruptcy petition. The largest amount owing a single creditor was $2,300, and this creditor stated that he did not know the cause of failure. Three of the principal creditors stated that in their opinion inefficient management and gambling were the principal causes of failure; and their opinions were confirmed by the bankrupt, who gave the same causes.

DISHONESTY AND FRAUD

Most credit authorities are agreed that dishonesty and fraud are the cause of a huge number of commercial failures. The exact number of premeditated bankruptcy frauds can not be ascertained, because none are recorded in business-failure statistics unless actual convictions are secured. The fundamental causes of the prevalence of fraudulent bankruptcies are directly attributed to (*a*) the desire of many credit grantors to maintain sales volume at any cost, thus affording a fraudulent debtor an opportunity to secure merchandise easily, and (*b*) the neglect of creditors to insist on and to conduct an investigation of bankrupt cases. Bankrupt discharges are granted virtually for the asking. According to the reports of the Attorney General, of all commercial bankrupts who seek a discharge only 2 per cent are refused. This fact suggests the possibility that many dishonest persons are able to utilize profitably the benefits of the bankruptcy court without fear of prosecution.

To incur obligations without intent to pay is a fraudulent act which is very rarely punished by law. There are, however, many fraudulent acts that are definitely punishable, but direct proof of dishonesty usually can not be secured without difficulty and great cost. An effective way of combating bankruptcy fraud is through a complete investigation of every bankruptcy case by competent and reliable persons. The objective of a dishonest debtor in a fraudulent bankruptcy case is to secure as much merchandise as possible on credit, dispose of it without paying creditors, and then secure a bankruptcy discharge. A few of the many dishonest practices commonly used

by commercial criminals are briefly mentioned below for the reader unfamiliar with the methods of bankruptcy fraud.

(1) Issuing false financial statements and receiving an unwarranted amount of credit.

(2) Transferring property and assets to relatives and friends and favored creditors prior to filing petition for bankruptcy.

(3) Selling property and assets to relatives and friends for insignificant amounts before filing bankruptcy petitions.

(4) Selling merchandise below cost, using funds to discount a few bills, thus acquiring a good credit reputation with several creditors who are used as reference in acquiring large quantities of merchandise from others who are never paid.

(5) Concealing assets which are disposed of profitably after bankruptcy.

(6) Purchasing a business or assuming a name of a company with a good credit rating and buying large quantities of merchandise on the basis of the firm's past credit reputation. The merchandise is disposed of at prices below cost and the funds placed beyond the reach of creditors. In many cases the merchandise is concealed until the bankruptcy discharge is granted.

(7) Listing, in bankruptcy petitions, fictitious claims of relatives and friends who receive payments belonging to others.

Often the owner of a commercial establishment, heretofore honest, will, upon facing bankruptcy, throw honesty aside and default or settle by any method that will not result in legal punishment. Of course, not every bankrupt is fraudulent; many hard-pressed and honest debtors are relieved of the burden of liabilities which they find impossible to pay. However, from the collective opinions of credit authorities regarding fraud, two significant facts are apparent: (*a*) Fraudulent business failures are increasing, and (*b*) they can be materially reduced by the concerted action of those who grant credit.

In securing the data for this report, evidences of dishonest methods and practices were not solicited, and consequently it can not be definitely proved that all of those accused of dishonesty by creditors were guilty. Creditors who were requested to submit opinions as to the causes of failure of their debtors in such cases stated that the bankrupt was dishonest, without any further explanation. Undoubtedly, some accusations were justified, but in considering dishonesty and fraud as a cause of failure in this report, it must be emphasized that the creditor's opinion was perhaps biased in some instances.

The following cases are typical of those in which the honesty of the bankrupt was questionable:

No. 59.—According to the opinions of the creditors, this was a fraudulent case. The bankrupt was a manufacturer of ladies' dresses. He stated that he had no school education other than that secured from a naturalization night-school course. Prior to his entrance into business he had been a cutter in a dress-manufacturing plant. A few months before the bankruptcy a burglary occurred, and he claimed that $10,000 worth of merchandise, not covered by insurance, was stolen. According to the bankrupt, the loss of merchandise through this theft was the sole cause of his failure. One creditor stated that "$1.05 to $1.20 a yard was paid for silk, which was sold for 60 cents a yard, and these purchases, in our opinion, were made with deliberate intent to defraud creditors." Another creditor stated: "A fake robbery was apparently the direct cause of failure. Some of the goods were recovered from a purchaser who had paid only part of their real value." A third creditor gave as the cause of failure, "Dishonesty."

A fourth creditor gave the following opinion: "I believe the bankruptcy was the result of deliberate planning to defraud creditors, by purchasing large quantities of merchandise and selling them for much less than market value, retaining the money from the resales, and then reporting an alleged robbery of the merchandise." Still another creditor said among other comments, "Our opinion is that this failure occurred through fraud."

No. 570.—In this bankruptcy case a wholesale wool merchant was accused of dishonesty by his principal creditors. It appeared from the facts secured that this merchant had secured large amounts of credit, estimated by one creditor to have been in excess of $140,000, by issuing false financial statements. The business was 16 years old, well established, and profitable. The owner had moved from another city with $50,000 in cash and merchandise. He gave, as the cause of his failure, business depression. Another creditor stated: "I supplied funds to finance what appeared to be legitimate business transactions, but which had no basis in fact. He attempted to recoup by speculations. I am convinced that this is a fraudulent case." A third creditor wrote as follows: "The man got into difficulties two years ago, but such was his reputation he was able to involve his creditors by making false statements to his bank and others. For more than one year he borrowed from one to pay another."

No. 202.—The corporation involved in this case was engaged in the manufacturing of dresses and garments. An analysis of the accounting records revealed a $12,000 merchandise shortage that was unexplained. The assumption was that some merchandise sales were not recorded. One of the officers had failed twice before, personally, and another had made numerous assignments. Creditors were of the opinion that there had been fraudulent manipulation of merchandise prior to bankruptcy. One creditor stated, "Fraudulent business practices and criminal dissipation of assets." Another mentioned "Selling merchandise below cost." One analyst of the corporation's financial statements stated: "A consideration of the excessive distortion of the sales and cost of sales figures for the two periods closing January 1 and July 31, 1930, strengthens the belief of fraudulent manipulation. During the seven months of 1930, just prior to bankruptcy, the company was practically stripped of all assets that could be turned into cash. So large a change in conditions as is evidenced by the comparative sales and cost of sales figures for the two periods could hardly result from the natural course of business." There were no scheduled assets in the petition for bankruptcy although liabilities were $10,000.

No. 311.—In this bankruptcy, the boot and shoe store proprietor stated that he was a naturalized citizen and had never been to school He had failed twice before. In this, his third failure, the assets were scheduled at $3,000, which were sold at public auction for $1,250 to his son. Liabilities of $9,400 were scheduled in the bankruptcy petition. The bankrupt claimed that insufficient capital was the principal cause of his failure. During the examination by the trustee in bankruptcy, he pleaded ignorance whenever at a loss for an answer, stating that he had never been to school Although he claimed that he took stock, the inventory sheets could not be found, and his answers to questions pertaining to mark-up were evasive and indefinite. He issued a financial statement 10 months before bankruptcy to a reporting agency, valuing merchandise at $7,600; which was appraised at $1,150 at the time of bankruptcy. It was the general opinion of creditors and the trustee that merchandise was sold at any price and the proceeds given to his son, who purchased the business back at auction. One creditor stated, in discussing the dishonest practices of this merchant, that "Assets over a period of years were diverted to the purchase of real estate in his wife's name, the failure was deliberately planned, and assets concealed." Another wrote as follows: "There was no necessity for this failure. The store is now being profitably operated in his son's name. The writer had occasion to investigate the matter a few months prior to his failure; there was a lot of merchandise in the store then, but very little when he failed."

DECLINE IN VALUE OF ASSETS

The rapid and constant decline in values of merchandise, real estate, equipment, and other assets occurring during the past few years has undoubtedly been a primary or contributing cause of many commercial failures. The decline in value of assets has not been offset by a corresponding reduction in amount of liabilities accrued against the depreciated assets, and concerns without adequate reserves have been

forced to extreme measures in order to pay creditors. Liquidations have occurred in practically every branch of industry, which has tended to destroy credit and paralyze business. Shrinking values threaten the business structure, as contracts based on values and confidence are rescinded by those unable to overcome the decline.

The following table shows the percentage of concerns affected by decline in value of assets:

Occupation	Per cent of concerns affected by decline in value of assets, in the opinion of the— Bankrupt	Principal creditors
Manufacturers	13	----------
Wholesalers	23	2
Retailers (merchandise)	14	----------
Retailers (service)	----------	----------
Real estate agents or dealers, builders, and contractors	72	17
All groups	31	5

The experience of the merchant discussed below is similar to that of numerous others.

No. 328.—The bankrupt in this case came to the United States 15 years before he entered business but never became a naturalized citizen. He stated that he had never attended school. At the inception of his business—a men's clothing store—the bankrupt had no funds of his own, although he was able to borrow $1,500 from his mother-in-law and to secure merchandise valued at $4,500 from various creditors. After 18 months of unprofitable operation, this merchant was forced to borrow $2,000 from a professional money lender at 15 per cent interest in order to continue the business. Shortly after the loan was made, a persuasive salesman succeeded in selling the bankrupt a large order of merchandise at seemingly low prices and on attractive terms. The store was stocked to capacity. In less than a month after the merchandise was received, and before any of it was sold, a pronounced price decline was in evidence. For six months the merchant attempted to compete with four other clothing stores which had minimum stocks at the beginning of the price decline and during its duration were supplied with minimum amounts of merchandise bought at the declining market prices. As a consequence, the competitors were able to sell comparable merchandise at less than what the merchant in this case paid for it. The exact loss occurring as a result of the price decline could not be ascertained, as no accounting records were maintained nor inventory taken. Each creditor submitting an opinion on the case stated that depreciation of inventory values and inefficient management were the major causes of failure.

EXCESSIVE OVERHEAD EXPENSES

Major operating costs which are higher than the average for similar successful enterprises should be regarded as an indication of a likely failure. Unless rent and salaries, usually the two largest overhead expenses in the majority of businesses, are in proportion to the volume of sales, failure is imminent. The profit and loss statement reflects the efficiency of management, and the appearance of excessive overhead costs is an indication of inefficient management.

The merchant or manufacturer and his creditors will find it advantageous to determine the exact cost of doing business, and after a comparison, item by item, with the average costs in competing and

similar concerns, a basis will be established for determining the economic justification of the enterprise and the possibilities for success.

The percentages of concerns affected by excessive overhead expenses are as follows:

Occupation	Per cent of concerns affected by excessive overhead expenses in the opinion of the—	
	Bankrupt	Principal creditors
Manufacturers	18	2
Wholesalers	21	22
Retailers (merchandise)	40	13
Retailers (service)	33	10
Real estate agents or dealers, builders, and contractors	2	1
All groups	24	9

The following case is typical:

No. 297.—This case involved a wholesaler of confectionery and bakery supplies who started in business with $290,000 paid-up capital. Creditors added $158,000 to this capital in the first nine months. An analysis of the accounting records revealed that the total overhead expenses during the last year of operations were 17 per cent of net sales; which was twice as much as should be necessary for the volume of business done. The excessive administration expenses and unusual selling salaries prevented profitable operation. Gross profit on sales was 4.7 per cent, while total operating expenses amounted to 17.3 per cent. In addition to excessive overhead, the books disclosed a noticeable shrinkage of the merchandise inventory which was accounted for by the following:

1. Theft of merchandise.
2. Merchandise sold at a loss due to improvident buying.
3. Merchandise sold at a loss due to market price fluctuations.
4. Waste and shrinkage.

The small mark up on goods, peculiar in this particular type of business, together with its large overhead necessarily required a greater volume of business than was secured as revealed by the records.

Certain entries disclosed a noticeable depreciation in the assets of the company, a condition which is explained by the fact that high values were placed originally thereon to conform with the incorporation plans.

INEFFICIENT AND DISHONEST EMPLOYEES

Inefficiency and dishonesty of employees are responsible for numerous failures, although not mentioned frequently as a cause of failure in this study. Three manufacturers were affected by inefficiency and dishonesty of employees, according to the owners; one wholesaler, one retail service establishment, and one real estate business, according to creditors. Ways and means of determining the value and honesty of employees are available and, if utilized, should disclose the facts needed for a true valuation of personnel. The unauthorized withdrawal of merchandise or money from a business by the employees has been a contributing or primary cause of failure in numerous bankruptcies.

The effect on a business of an inefficient employee or executive is illustrated in the following case:

No. 878.—The corporation in this case had a paid-up capital of $10,000 and was organized in 1921 to operate a commercial printing business. The principal executive, a high-salaried official, had a controlling interest in the corporation.

He was absolutely without experience as a printer, having formerly been in the garment business. Although the sales were relatively small, varying from $42,000 to $48,000 a year, this one official was drawing $5,000 a year salary. Work was taken at a loss to keep the plant operating. The inefficient management of the principal executive and the excessive salary paid him were the primary causes of failure, according to stockholders and creditors.

OTHER CAUSES

The bankrupt merchandise retailers mentioned poor location as a cause of failure more frequently than any of the owners in the other groups. According to the owners, 28 per cent of the retail merchandise stores did not have a good location. The creditors were of the opinion that 5 per cent of the stores did not have suitable location. There are many factors to be taken into consideration in choosing a location for a business, and it is evident in many cases of failure that the most fundamental and important considerations have been apparently overlooked or disregarded; for example:

No. 152.—Prior to his entrance in the retail millinery business, the bankrupt in this case had been a salesman in an unrelated line of trade. A location was selected on which two previous failures had occurred within a period of two years. After operating profitably for three months, and feeling that his success was assured, he opened another shop adjacent to five competitors. For 4½ years thereafter he had difficulty in meeting his bills. In 1926 he made an assignment for the benefit of creditors, borrowing $1,500 to effect a compromise. Two creditors did not assent and were later awarded judgments for their $500 claims. The yearly rental of $2,400 and other operating expenses were, during the year preceding failure, much greater than sales, amounting to $5,400, and bankruptcy could not be avoided. No inventory was taken and no accounting records maintained. The principal cause of failure, according to the bankrupt, was poor location. There were four bankruptcies in the same trading area and in the same line of business during the last year the business was operated.

Buying too much on credit is frequently a fault of an untrained merchant, who finds it difficult to withstand the high-pressure salesmanship and persuasive ways of a salesmen with no interest in the success of a business, but only in his increased commissions. To cite an illustration:

No. 168.—This case involved a woman who had been a manager of hotels and tea rooms during winter seasons for five years. In 1920 she opened her own tea room with a capital investment of $3,000. In 1923 she purchased the building in which she conducted her business for $4,600, assuming a mortgage of $2,500. Feeling her success was assured, she bought a second tea room and the building for $6,500, mortgaged for $4,500 and $1,500. This was refinanced in 1927, with a first mortgage of $5,500 placed on it and the second mortgage paid off entirely. Volume of business was $10,000 to $14,000 a season. Although her business was only seasonal, she undertook obligations which required monthly payments throughout the year. An electric refrigerator, some furniture, a piano, a stove, and a soda fountain were all purchased on the installment plan. She also incurred obligations of $6,000 for carpentering and repairing. A $695 auto was purchased in 1928 on credit. In 1930, she placed a second mortgage on one piece of property of $1,000 at 6 per cent, and on the other a $1,500 mortgage at 8 per cent. The chattel and real estate mortgages were foreclosed, and she went out of business owing $7,000 and having no assets.

Excessive interest charges on borrowed capital in most cases eventually causes failure. If interest charges are greater than the average profit for the particular line of trade, failure is imminent. Ten per cent of the persons engaged in real estate and building activities stated that excessive interest charges was a principal cause of their bankruptcy. The large profits available in this field were responsible for the creation of an unprecedented number of real estate mortgage and

finance companies. Banks formed subsidiary companies to handle second mortgages, insurance companies went into the business in a large way, and thousands of independent mortgage companies appeared everywhere, many of them charging a bonus for loans as high as 10 per cent a year. A good illustration of the bad use of credit and excessive interest charges is shown in the following case:

No. 391.—The individual concerned in this case was formerly the owner of an unprofitable 1-room chemical manufacturing company, who decided to discontinue that business and enter the real estate building field. Although he had no experience in the building business, and no capital, a construction loan company agreed to finance his plans and loaned him $60,000 at 12 per cent interest for the purpose of constructing four houses. In addition to the capital secured from the loan construction company, various other creditors contributed over $20,000 in services or building supplies. This bankrupt who ventured into a business in which he had neither experience nor capital, accumulated debts in excess of $80,000 within six months after he started. His inability to meet the first interest payment resulted in foreclosure of the property and bankruptcy. The unwarranted extension of credit by the loan and construction company and other creditors enabled an unqualified builder to engage in a business in which his failure seemed certain from the beginning. The primary cause of failure was excessive interest charges, according to the bankrupt, who had been able to secure $80,000 credit in less than six months. Three principal creditors admitted that they had extended credit to the bankrupt without any investigation.

Unwarranted expansion is frequently a cause of failure of many businesses. In the real estate and building group, losses from speculation were an important cause of failure, according to the opinions secured. In several other types of business, overexpansion appeared to be an important cause of failure. The following are examples:

No. 476.—The bankrupt in this case was a wholesale and retail florist who had been in business for 20 years, having operated at eight different locations. He was doing $200,000 to $400,000 business a year (all on an initial capital investment of $4,000), 50 per cent of which was on a credit basis. During the four years preceding bankruptcy, he purchased considerable real estate, built three elaborate greenhouses, opened six stores, bought six trucks costing $4,500 and a pleasure car costing $1,800, and took out $24,000 in life insurance. One piece of property was assessed at $20,000, first mortgage $15,000 and a second for $5,000; another assessed at $30,000 was mortgaged for $45,000; a third assessed at $70,000 was mortgaged for $30,000 and $12,000. His pay roll was $75,000 a year, including his own withdrawals. He stated that overexpansion and too much reliance on his own capability were the causes of failure. There was no coordination between his wholesale and retail business. Creditors' opinions were identical with those expressed by the bankrupt.

No. 364.—The bankrupt in this case stated that the principal reasons for his failure were overexpansion and excessive interest charges on borrowed capital, which on one $20,000 note amounted to 18 per cent. The overexpansion of his business—a tobacco and confectionery store—depleted surplus and working-capital funds and necessitated borrowing money to make improvements and to continue the business. An analysis of the accounting records over a 3-year period of the concern revealed that sales did not increase but that cost of goods sold and operating expenses did increase. No profit was made, and the owner was unable to pay interest charges and payments on the money borrowed to make what were considered necessary improvements. In an effort to prevent the bankruptcy, during the year prior to failure, the owner borrowed an additional $1,700 from a loan and finance company, at 15 per cent interest. The holders of the chattel liens foreclosed, and the owner, unable to continue his business, was forced into bankruptcy. A principal creditor stated: "Operations of this business were inconsistent with its capital resources and reasonable expectations of profits. The unwarranted expansion, financed by money borrowed at exorbitant rates of interest, in my opinion, is the real cause of failure."

STATISTICAL MATERIAL

TABLE 1.—DISTRIBUTION OF 521 BANKRUPT COMMERCIAL ESTABLISHMENTS ACCORDING TO AMOUNT OF CAPITAL INVESTED AT DATE OF ORGANIZATION

Classification	Number reporting	Under $100	$101–$500	$501–$1,000	$1,001–$2,500	$2,501–$5,000	$5,001–$10,000	$10,001–$50,000	Over $50,000
Manufacturers	51	1	3	6	10	12	6	6	7
Wholesalers	47	1	7	4	12	7	8	7	1
Retailers (merchandise)	212	9	34	35	56	37	27	11	3
Retailers (service)	60	8	12	6	13	10	4	5	2
Real estate agents or dealers, builders, and contractors	151	11	38	35	26	17	9	12	3
Total	521	30	94	86	117	83	54	41	16

TABLE 2.—SOURCE AND AMOUNT OF CAPITAL INVESTED IN 394 BANKRUPT INDIVIDUAL PROPRIETORSHIPS AT DATE OF ORGANIZATION

Classification	Number reporting	Total	Per cent of total capital							
			Owners	Friends or relatives	Life insurance	Commercial banks	Loan or finance companies	Other banks	Wholesalers	Fixtures on installment
Manufacturers	22	$51,892	56.8	22.7	5.8	------	------	------	5.6	9.1
Wholesalers.										
Clothing and dry goods	3	82,000	93.9	------	------	------	------	------	5.5	.6
Groceries and other foods	11	41,600	62.5	24.5	------	------	------	0.7	12.3	------
Hardware and paint	7	19,000	62.6	29.0	------	------	------	------	------	8.4
All other	10	78,960	95.8	2.3	.3	1.2	------	------	.3	.1
Total	31	221,560	86.0	7.9	.1	.5	------	.1	4.4	1.0
Retailers (merchandise).										
Automobiles, accessories, and gasoline	27	125,594	89.0	4.6	------	3.7	------	------	1.8	.9
Books, news, stationery, and novelties	5	12,835	24.4	52.2	------	------	------	------	21.0	2.4
Boots and shoes	9	39,700	56.4	10.1	------	2.5	.8	------	30.2	------
Candy, cigars, and tobacco	6	31,100	31.5	11.9	------	------	------	------	12.2	44.4
Clothing and dry goods	18	73,450	78.3	6.9	.4	------	------	------	14.4	------
Drugs	9	32,900	16.0	31.3	1.2	------	1.3	------	17.5	32.7
Furniture	7	19,400	87.6	------	2.1	------	------	------	10.3	------
Groceries and meat	36	43,559	41.7	30.5	.2	2.8	.7	.7	18.3	5.1
Hardware	5	9,700	32.0	19.6	2.1	------	------	------	5.2	41.1
Hucksters and peddlers	13	11,350	55.1	17.6	------	------	8.8	------	18.5	------
Jewelry	3	2,990	74.4	20.1	------	------	------	------	------	5.5
Radio and musical instruments	13	41,181	58.5	17.2	------	2.4	7.3	1.2	7.4	6.0
Restaurants	17	65,979	19.9	41.0	.9	.8	1.4	------	7.4	28.6
All other	9	14,800	50.0	21.0	2.0	------	2.0	------	20.3	4.7
Total	177	524,538	57.4	17.3	.4	1.6	1.2	.2	11.5	10.4
Retailers (service).										
Cleaning, dyeing, pressing, tailoring, and laundry	8	13,825	21.0	35.1	1.8	------		------	4.9	37.2
Hotels, inns, and boarding houses	3	8,975	55.4	27.9	------	------	------	------	------	16.7
Insurance, advertising, and stocks (agents)	2	7,000	100.0	------	------	------	------	------	------	------
Recreation and amusement	5	14,650	59.0	21.8	------	13.7	------	------	------	5.5
Transportation (taxi, express, and transfer)	20	23,111	56.0	5.0	------	------	.9	1.3	29.4	7.4
All other	6	11,105	6.3	66.4	------	3.6	------	------	8.4	15.3
Total	44	78,666	47.2	24.2	.3	3.1	.3	.4	10.7	13.8
Real estate agents, or dealers, builders, and contractors.										
Real estate agents or dealers	22	113,676	94.5	5.5	------	------	------	------	------	------
Builders	48	263,775	70.3	13.4	.1	4.9	6.7	------	4.6	------
Electrical contractors	3	3,300	51.5	3.0	------	------	15.2	------	30.3	------
Heating and plumbing contractors	16	13,150	93.9	------	------	3.8	------	------	2.3	------
Masonry and tiling contractors	12	5,225	80.4	13.4	------	------	5.3	------	.9	------
Painting and paper-hanging contractors	13	9,810	82.3	10.2	7.1	------	------	------	.4	------
All other contractors	6	7,600	98.0	------	------	------	------	------	2.0	------
Total	120	416,536	78.4	10.4	.3	3.2	4.4	------	3.3	------
Grand total	394	1,293,192	68.4	14.1	.5	2.0	1.9	.1	7.4	5.6

Table 3.—Source and Amount of Capital Invested in 58 Bankrupt Partnerships at Date of Organization

Classification	Number reporting	Total	Per cent of total capital						
			Owners	Friends or relatives	Life insurance	Commercial banks	Loan or finance companies	Wholesalers	Fixtures on installment
Manufacturers	7	$19,900	77.4	7.0				5.0	10.6
Wholesalers:									
Clothing and dry goods	2	2,500	12.0	8.0		80.0			
Groceries and other foods	1	500	100.0						
Hardware and paint	2	15,290	1.3	.6		98.1			
Total	5	18,290	5.5	1.6		92.9			
Retailers (merchandise):									
Automobiles, accessories, and gasoline	2	2,900	79.3	20.7					
Books, news, stationery, and novelties	2	2,650	100.0						
Candy, cigars, and tobacco	1	7,000	100.0						
Clothing and dry goods	1	500	100.0						
Groceries and meat	2	3,000	6.7	6.7	6.7		13.3	50.0	16.6
Hardware	1	2,100	14.3					85.7	
Jewelry	1	900	55.6					44.4	
Restaurants	4	32,100	33.0	28.0				7.8	31.2
Total	14	51,150	47.0	19.2	.4		.8	12.1	20.5
Retailers (service):									
Cleaning, dyeing, pressing, tailoring, and laundry	2	2,400	33.3	20.8					45.9
Hotels, inns, and boarding houses	2	30,500		100.0					
Insurance, advertising, and stocks (agents)	1	25,000	100.0						
Recreation and amusement	1	3,900	10.3	25.6					64.1
Transportation (taxi, express, and transfer)	2	30,100	96.3					3.7	
Total	8	91,900	60.1	34.8				1.2	3.9
Real estate agents or dealers, builders, and contractors:									
Real estate agents or dealers	2	86,000	98.8	1.2					
Builders	10	16,400	78.7	21.3					
Heating and plumbing contractors	4	5,500	63.6					36.4	
Masonry and tiling contractors	6	12,800	100.0						
All other contractors	2	3,200	90.6	9.4					
Total	24	123,900	94.5	3.9				1.6	
Grand total	58	305,140	69.7	15.8	.1	5.6	.1	3.4	5.3

Table 4.—Source and Amount of Capital Invested in 69 Bankrupt Corporations at Date of Organization

Classification	Number reporting	Total	Per cent of total capital						
			Stockholders	Friends or relatives	Commercial banks	Loan or finance companies	Morris Plan banks	Wholesalers	Fixtures on installment
Manufacturers	22	$1,918,980	92.7	5.9	0.8	0 1	0.1	0.3	0.1
Wholesalers:									
Clothing and dry goods	1	8,000	100.0	------	------	------	------	------	------
Groceries and other foods	3	29,000	75.9	------	------	------	------	6.9	17.2
Hardware and paint	2	45,000	94.5	2.2	------	------	------	3.3	------
All other	5	45,000	96.7	------	------	------	------	3.3	------
Total	11	127,000	91.4	.8	------	------	------	3.9	3.9
Retailers (merchandise):									
Automobiles, accessories, and gasoline	3	140,300	98.9	1.1	------	------	------	------	------
Books, news, stationery, and novelties	1	11,000	100 0	------	------	------	------	------	------
Boots and shoes	1	5,500	27.3	72.7	------	------	------	------	------
Clothing and dry goods	2	24,300	88.5	------	------	------	------	11.5	------
Furniture	2	11,500	100 0	------	------	------	------	------	------
Groceries and meat	1	6,000	100.0	------	------	------	------	------	------
Hardware	1	15,000	66.7	------	------	------	------	33.3	------
Jewelry	2	82,000	73.2	------	------	------	------	18.3	8.5
Radio and musical instruments	1	10,000	100.0	------	------	------	------	------	------
Restaurants	4	43,300	58.9	------	3.5	------	------	------	37.6
All other	3	60,440	96.3	------	------	------	------	3.7	------
Total	21	409,340	86.5	1.3	.4	------	------	6.1	5.7
Retailers (service):									
Cleaning, dyeing, pressing, tailoring, and laundry	3	121,442	28.4	5.8	------	------	------	------	65.8
Hotels, inns, and boarding houses	1	4,000	100.0	------	------	------	------	------	------
Insurance, advertising, and stocks (agents)	1	50,250	100 0	------	------	------	------	------	------
Recreation and amusement	2	27,500	100 0	------	------	------	------	------	------
All other	1	1,500	100.0	------	------	------	------	------	------
Total	8	204,692	57 5	3.4	------	------	------	------	39.1
Real estate agents or dealers, builders, and contractors:									
Real estate agents or dealers	1	25,000	100 0	------	------	------	------	------	------
Builders	2	10,300	100 0	------	------	------	------	------	------
Heating and plumbing contractors	1	9,500	100 0	------	------	------	------	------	------
All other contractors	3	88,500	98.3	1.7	------	------	------	------	------
Total	7	133,300	98.9	1.1	------	------	------	------	------
Grand total	69	2,793,312	89.4	4.6	.6	.1	.1	1.3	3.9

Table 5.—Sales and Credit Losses of 498 Bankrupt Enterprises During Year Prior to Failure

Classification	Number reporting	Sales				Credit losses			
						Open credit		Deferred credit	
		Total amount	Per cent cash	Per cent open credit	Per cent deferred credit	Per cent of open credit sales	Per cent of total sales	Per cent of deferred credit sales	Per cent of total sales
Manufacturers	53	$3, 631, 079	4. 1	95. 9	------	3. 3	3. 1	------	------
Wholesalers:									
Clothing and dry goods	7	378, 130	2. 3	97. 7	------	3. 7	3. 6	------	------
Groceries and other foods	16	521, 240	14. 1	85. 9	------	3. 8	3. 2	------	------
Hardware and paint	14	578, 778	55. 4	41. 5	3. 1	6. 1	2. 5	------	------
All other	14	573, 218	50. 3	49. 7	------	2. 2	1. 1	------	------
Total	51	2, 051, 366	33. 7	65. 4	. 9	3. 8	2. 5	------	------
Retailers (merchandise):									
Automobiles, accessories, and gasoline	32	908, 035	39. 4	56. 9	3. 7	2. 2	1. 3	15. 0	. 6
Books, news, stationery, and novelties	6	202, 900	48. 4	51. 0	. 6	26. 8	13. 7	11. 5	. 1
Boots and shoes	10	146, 160	99. 9	. 1	------	25. 0	. 03	------	------
Candy, cigars, and tobacco	7	293, 900	98. 3	1. 7	------	2. 5	. 04	------	------
Clothing and dry goods	21	519, 073	68. 4	30. 3	1. 3	5. 3	1. 6	15. 9	. 2
Drugs	9	97, 564	99. 5	. 5	------	7. 4	. 03	------	------
Furniture	9	125, 200	26. 9	16. 4	56. 7	. 9	. 2	33. 8	19. 2
Groceries and meat	39	515, 990	65. 3	34. 7	------	3. 3	1. 2	------	------
Hardware	8	85, 629	38. 7	53. 6	7. 7	14. 5	7. 8	22. 7	1. 8
Hucksters and peddlers	14	63, 880	40. 6	25. 8	33. 6	4. 9	1. 3	16. 4	5. 5
Jewelry	6	222, 547	29. 1	1. 8	69. 1	5. 0	. 1	7. 4	5. 1
Radio and musical instruments	14	1, 287, 367	9. 4	3. 1	87. 5	28. 5	. 9	16. 4	14. 4
Resturants	25	517, 103	91. 5	8. 5	------	2. 0	. 2	------	------
All other	12	93, 490	53. 3	46. 7	------	3. 7	1. 7	------	------
Total	212	5, 078, 841	48. 9	23. 1	28. 0	6. 4	1. 5	16. 3	4. 6
Retailers (service):									
Cleaning, dyeing, pressing, tailoring, and laundry	11	429, 240	19. 0	81. 0	------	23. 0	18. 6	------	------
Hotels, inns, and boarding houses	6	37, 236	99. 2	. 8	------	100. 0	. 8	------	------
Insurance, advertising, and stocks (agents)	5	4, 327, 500	27. 7	7. 6	64. 7	8. 2	. 6	30. 0	19. 4
Recreation and amusement	7	94, 190	100. 0	------	------	------	------	------	------
Transportation (taxi, express, and transfer)	22	173, 040	50. 0	50. 0	------	4. 0	2. 0	------	------
All other	7	47, 050	89. 8	10. 2	------	15. 6	1. 6	------	------
Total	58	5, 108, 256	30. 2	15. 0	54. 8	14. 5	2. 2	30. 0	16. 4
Real estate agents or dealers, builders, and contractors:									
Real estate agents or dealers	19	243, 720	54. 7	3. 7	41. 6	12. 2	. 5	5. 4	2. 3
Builders	28	1, 229, 970	20. 9	44. 0	35. 1	5. 0	2. 2	. 02	. 01
Electrical contractors	4	36, 700	14. 7	44. 4	40. 9	12. 9	5. 7	------	------
Heating and plumbing contractors	25	489, 450	1. 5	98. 5	------	12. 0	11. 9	------	------
Masonry and tiling contractors	22	193, 100	7. 0	92. 6	. 4	4. 5	4. 2	37. 5	. 1
Painting and paperhanging contractors	15	130, 500	10. 1	71. 9	18. 0	5. 6	4. 0	1. 9	. 3
All other contractors	11	471, 900	6. 7	93. 3	------	3. 7	3. 5	------	------
Total	124	2, 795, 340	16. 5	63. 0	20. 5	6. 7	4. 2	1. 1	. 2
Grand total	498	18, 664, 882	28. 5	45. 7	25. 8	5. 6	2. 6	22. 4	5. 8

Table 6.—Scheduled Assets of 570 Bankrupt Enterprises (Including Real Estate)

Classification	Number reporting	Total assets	Per cent of total				
			Accounts receivable	Stocks in trade	Fixtures	Real estate	Other assets
Manufacturers	54	$955,662	14.6	10.5	17.1	0.8	57.0
Wholesalers:							
Clothing and dry goods	7	51,468	35.6	39.8	.5	23.3	.8
Groceries and other foods	16	24,831	68.1	6.3	1.0	-----	24.6
Hardware and paint	14	154,811	17.7	18.1	3.3	58.1	2.8
All other	15	228,443	10.2	1.7	.2	78.9	9.0
Total	52	459,553	18.7	11.7	1.3	61.5	6.8
Retailers (merchandise):							
Automobiles, accessories, and gasoline	34	295,439	4.1	.2	1.5	91.2	3.0
Books, news, stationery, and novelties	8	13,872	4.0	66.3	9.4	-----	20.3
Boots and shoes	10	12,153	.8	88.0	11.1	-----	.1
Candy, cigars, and tobacco	7	3,475	3.6	37.4	43.2	-----	15.8
Clothing and dry goods	21	124,281	19.5	18.3	2.8	44.2	15.2
Drugs	9	1,516	.9	66.0	33.0	-----	.1
Furniture	9	54,122	87.7	11.3	.6	-----	.4
Groceries and meat	39	18,656	26.0	6.4	8.5	45.6	13.5
Hardware	8	8,332	73.3	15.7	-----	-----	11.0
Hucksters and peddlers	14	6,462	57.2	.5	-----	-----	42.3
Jewelry	6	54,710	14.3	47.7	2.3	21.0	14.7
Radio and musical instruments	14	19,578	67.2	28.8	.8	-----	3.2
Restaurants	25	11,638	9.8	16.9	51.7	-----	21.6
All other	14	25,081	12.6	6.2	3.7	40.7	36.8
Total	218	649,315	19.2	13.8	3.5	54.6	8.9
Retailers (service):							
Cleaning, dyeing, pressing, tailoring, and laundry	13	15,565	64.3	4.8	25.1	-----	5.8
Hotels, inns, and boarding houses	6	2,578	15.1	42.9	-----	-----	42.0
Insurance, advertising, and stocks (agents)	6	1,707	50.1	-----	-----	-----	49.9
Recreation and amusement	10	889	-----	5.6	67.5	-----	26.9
Transportation (taxi, express, and transfer)	23	4,592	19.4	-----	-----	-----	80.6
All other	8	3,244	1.6	4.6	32.3	-----	61.5
Total	66	28,580	42.7	7.2	19.4	-----	30.7
Real estate agents or dealers, builders, and contractors:							
Real estate agents or dealers	31	193,383	34.8	.3	.8	56.6	7.5
Builders	68	117,871	11.8	.1	2.5	39.6	46.0
Electrical contractors	5	736	100.0	-----	-----	-----	-----
Heating and plumbing contractors	25	82,897	36.9	2.6	.8	47.0	12.7
Masonry and tiling contractors	22	52,496	72.6	.2	1.7	-----	25.5
Painting and paperhanging contractors	16	27,671	26.3	1.5	1.3	56.0	14.9
All other contractors	13	72,347	49.9	1.5	8.8	34.6	5.2
Total	180	547,401	35.4	.8	2.3	43.1	18.4
Grand total	570	2,640,511	21.1	9.5	8.0	33.3	28.1

TABLE 7.—SCHEDULED LIABILITIES OF 570 BANKRUPT ENTERPRISES (INCLUDING COLLATERAL AND REAL ESTATE MORTGAGES)

Classification	Number reporting	Total liabilities (including collateral)	Per cent of total liabilities owing to—			
			General creditors	Preferred creditors (taxes, wages, etc.)	Contingent liabilities	Secured creditors
Manufacturers	54	$1,896,649	72.4	0.9	7.3	19.4
Wholesalers:						
Clothing and dry goods	7	143,625	79.7	.4	7.8	12.1
Groceries and other foods	16	258,232	60.7	.6	5.4	33.3
Hardware and paint	14	449,987	68.8	1.5	15.4	14.3
All other	15	544,001	60.7	3.4	2.4	33.5
Total	52	1,395,845	65.3	1.9	7.7	25.1
Retailers (merchandise):						
Automobiles, accessories, and gasoline	34	685,763	45.7	2.4	.1	51.8
Books, news, stationery, and novelties	8	83,621	83.2	.7	10.6	5.5
Boots and shoes	10	72,909	83.4	.9	1.3	14.4
Candy, cigars, and tobacco	7	227,545	50.0	.8	40.9	8.3
Clothing and dry goods	21	354,459	67.6	1.7	10.4	20.3
Drugs	9	126,472	37.1	.4	19.1	43.4
Furniture	9	155,739	56.1	.6	.6	42.7
Groceries and meat	39	158,822	65.8	2.5	1.4	30.3
Hardware	8	51,117	73.1	2.8	5.9	18.2
Hucksters and peddlers	14	74,152	77.2	----------	3.3	19.5
Jewelry	6	192,148	88.9	.3	----------	10.8
Radio and musical instruments	14	95,670	67.9	4.4	9.2	18.5
Restaurants	25	195,828	68.1	1.6	1.1	29.2
All other	14	76,795	87.5	3.4	1.2	7.9
Total	218	2,551,040	61.4	1.7	7.3	29.6
Retailers (service):						
Cleaning, dyeing, pressing, tailoring, and laundry	13	70,667	88.7	1.7	4.0	5.6
Hotels, inns, and boarding houses	6	38,200	80.4	2.3	----------	17.3
Insurance, advertising, and stocks (agents)	6	431,420	82.6	15.5	.1	1.8
Recreation and amusement	10	137,879	84.0	.4	----------	15.6
Transportation (taxi, express, and transfer)	23	102,470	85.8	1.5	10.1	2.6
All other	8	31,928	80.1	1.4	9.0	9.5
Total	66	812,564	83.6	8.8	2.0	5.6
Real-estate agents or dealers, builders, and contractors:						
Real estate agents or dealers	31	3,595,606	41.3	.3	10.6	47.8
Builders	68	3,609,507	37.7	.4	9.6	52.3
Electrical contractors	5	8,332	100.0	----------	----------	----------
Heating and plumbing contractors	25	386,209	55.2	1.1	1.1	42.6
Masonry and tiling contractors	22	122,040	98.4	.2	.6	.8
Painting and paper-hanging contractors	16	87,751	85.9	1.2	1.0	11.9
All other contractors	13	209,420	90.3	2.3	----------	7.4
Total	180	8,018,865	43.1	.4	9.2	47.3
Grand total	570	14,674,963	54.4	1.3	8.1	36.2

Table 8.—Scheduled Assets of 570 Bankrupt Enterprises (Excluding Real Estate)

Classification	Number reporting	Total assets	Per cent of total			
			Accounts receivable	Stock in trade	Fixtures	Other assets
Manufacturers	54	$947,962	14.7	10.6	17.2	57.5
Wholesalers:						
Clothing and dry goods	7	39,468	46.4	51.9	.7	1.0
Groceries and other foods	16	24,831	68.1	6.3	1.0	24.6
Hardware and paint	14	64,811	42.4	43.1	7.9	6.6
All other	15	48,117	48.6	8.0	.8	42.6
Total	52	177,227	48.6	30.4	3.4	17.6
Retailers (merchandise):						
Automobiles, accessories, and gasoline	34	26,086	46.8	2.0	16.9	34.3
Books, news, stationery, and novelties	8	13,872	4.0	66.3	9.4	20.3
Boots and shoes	10	12,153	.8	88.0	11.1	.1
Candy, cigars, and tobacco	7	3,475	3.6	37.4	43.2	15.8
Clothing and dry goods	21	69,281	35.0	32.8	5.0	27.2
Drugs	9	1,516	.9	66.0	33.0	.1
Furniture	9	54,122	87.7	11.3	.6	.4
Groceries and meat	39	10,156	47.8	11.7	15.7	24.8
Hardware	8	8,332	73.3	15.7	----------	11.0
Hucksters and peddlers	14	6,462	57.2	.5	----------	42.3
Jewelry	6	43,210	18.1	60.4	2.9	18.6
Radio and musical instruments	14	19,578	67.2	28.8	.8	3.2
Restaurants	25	11,638	9.8	16.9	51.7	21.6
All other	14	14,881	21.2	10.5	6.2	62.1
Total	218	294,762	42.3	30.3	7.7	19.7
Retailers (service):						
Cleaning, dyeing, pressing, tailoring, and laundry	13	15,565	64.3	4.8	25.1	5.8
Hotels, inns, and boarding houses	6	2,578	15.1	42.9	----------	42.0
Insurance, advertising, and stocks (agents)	6	1,707	50.1	----------	----------	49.9
Recreation and amusement	10	889	----------	5.6	67.5	26.9
Transportation (taxi, express, and transfer)	23	4,592	19.4	----------	----------	80.6
All other	8	3,249	1.6	4.6	32.3	61.5
Total	66	28,580	42.7	7.2	19.4	30.7
Real-estate agents, or dealers, builders, and contractors:						
Real estate agents or dealers	31	83,883	80.1	.6	1.9	17.4
Builders	68	71,129	19.5	.1	4.1	76.3
Electrical contractors	5	736	100.0	----------	----------	----------
Heating and plumbing contractors	25	43,897	69.6	4.9	1.5	24.0
Masonry and tiling contractors	22	52,496	72.6	.2	1.7	25.5
Painting and paper-hanging contractors	16	12,171	59.8	3.5	2.8	33.9
All other contractors	13	47,347	76.3	2.3	13.4	8.0
Total	180	311,659	62.2	1.4	4.1	32.3
Grand total	570	1,760,190	31.6	14.2	11.9	42.3

TABLE 9.—SCHEDULED LIABILITIES OF 570 BANKRUPT ENTERPRISES (EXCLUDING COLLATERAL AND REAL ESTATE MORTGAGES)

Classification	Number reporting	Total general creditors	Per cent of total liabilities owing to—			
			Wholesalers	Finance companies	Morris Plan banks	Other banks
Manufacturers	54	$1,372,961	34.4	0.4	4.0	9.0
Wholesalers:						
Clothing and dry goods	7	114,498	77.2			8.6
Groceries and other foods	16	156,777	50.4	1.0	6.6	3.3
Hardware and paint	14	309,608	50.8	.3		10.8
All other	15	329,941	33.2			9.9
Total	52	910,824	47.7	.3	1.1	8.9
Retailers (merchandise):						
Automobiles, accessories, and gasoline	34	313,582	25.6	.3	.2	30.4
Books, news, stationery, and novelties	8	69,579	54.3			.2
Boots and shoes	10	60,798	73.3	1.4		1.4
Candy, cigars, and tobacco	7	113,762	33.5			4.5
Clothing and dry goods	21	239,520	58.4	.6	.2	17.5
Drugs	9	46,920	36.3	.4	1.1	1.0
Furniture	9	87,392	79.7	.1		
Groceries and meats	39	104,417	58.8	2.7	.3	6.1
Hardware	8	37,379	66.0	.1		3.5
Hucksters and peddlers	14	57,266	73.7	7.6		.9
Jewelry	6	170,758	96.3			.7
Radio and musical instruments	14	64,998	52.8	6.4	.7	8.0
Restaurants	25	133,284	39.2	.1		3.9
All other	14	67,174	61.2	2.6	.3	5.1
Total	218	1,566,829	54.1	1.1	.2	10.6
Retailers (service):						
Cleaning, dyeing, pressing, tailoring and laundry	13	62,713	31.5	1.8		1.1
Hotels, inns, and boarding houses	6	30,694	14.1			2.5
Insurance, advertising, and stocks (agents)	6	356,367	.2	.1		11.2
Recreation and amusement	10	115,787	5.7			8.2
Transportation (taxi, express, and transfer)	23	87,920	30.1	1.7	.8	.1
All other	8	25,577	14.0	.8		
Total	66	679,058	9.0	.5	.1	7.5
Real-estate agents or dealers, builders, and contractors:						
Real-estate agents or dealers	31	1,486,092	6.1	.9	.1	4.7
Builders	68	1,361,938	51.3	.4	4.6	14.3
Electrical contractors	5	8,332	91.1			
Heating and plumbing contractors	25	213,240	86.3	.2	1.3	2.3
Masonry and tiling contractors	22	120,060	79.8	.5		.9
Painting and paper-hanging contractors	16	75,363	57.9	3.7	.7	.2
All other contractors	13	189,096	54.6	.4		9.5
Total	180	3,454,121	35.4	.7	2.0	8.4
Grand total	570	7,983,793	38.5	.6	1.7	8.9

Table 9.—Scheduled Liabilities of 570 Bankrupt Enterprises (Excluding Collateral and Real Estate Mortgages—Continued

Classification	Per cent of total liabilities owing to—					
	Goods on install-ment	Judg-ments	Retail-ers	Profes-sional services	Personal services	All others
Manufacturers	0.1	0.1	0.2	0.5	12.8	38.5
Wholesalers:						
Clothing and dry goods		.8	.3	.6	6.5	6.0
Groceries and other foods	.2	13.6	.3	.9	19.5	4.2
Hardware and paint	.1		.5	.6	32.9	4.0
All other	.6		.7	.5	48.2	6.9
Total	.3	2.4	.5	.6	32.8	5.4
Retailers (merchandise):						
Automobiles, accessories, and gasoline	.1	.4	1.1	.5	25.4	16.0
Books, news, stationery, and novelties			.4	1.7	23.3	20.1
Boots and shoes	.8	1.1	.9	4.2	11.9	5.0
Candy, cigars, and tobacco	.9	.04	1.0	.5	22.8	36.8
Clothing and dry goods		.1	.2	.2	15.0	7.8
Drugs	7.2		6.5	.8	17.4	29.3
Furniture	.1		.6	.5	11.3	7.7
Groceries and meat	.9	.2	2.2	1.1	6.7	21.0
Hardware			1.1	.5	13.4	15.4
Hucksters and peddlers	.5		.5	2.4	7.4	7.0
Jewelry				.1	2.4	.5
Radio and musical instruments			6.1	.9	10.0	15.1
Restaurants	1.3	2.2	1.2	1.7	19.6	30.8
All other		1.5	1.5	2.0	11.6	14.2
Total	.5	.4	1.2	.9	15.6	15.4
Retailers (service):						
Cleaning, dyeing, pressing, tailoring, and laundry	3.8		2.3	.8	29.5	29.2
Hotels, inns, and boarding houses	1.2		16.9	9.0	29.2	27.1
Insurance, advertising, and stocks (agents)	.9	40.0	3.9	.7	18.5	24.5
Recreation and amusement	1.0	.7	18.8	.5	15.2	49.9
Transportation (taxi, express, and transfer)	3.3	6.9	7.6	2.1	16.3	31.1
All other	.7		1.7	2.5	30.1	50.2
Total	1.5	22.0	7.3	1.3	19.6	31.2
Real-estate agents or dealers, builders, and contractors:						
Real-estate agents or dealers	.1	.2	.7	.6	66.3	20.3
Builders	.1	1.0	.3	.9	12.3	14.8
Electrical contractors			.3	.5		8.1
Heating and plumbing contractors		.6	.8	.6	2.7	5.2
Masonry and tiling contractors	.3		1.7	2.0	7.8	7.0
Painting and paper-hanging contractors	.2		1.1	.5	3.1	32.6
All other contractors		1.8	.04	.4	19.6	13.7
Total	.1	.6	.5	.8	35.0	16.5
Grand total	.2	2.5	1.2	.7	25.7	20.0

Table 10.—Length of Time Prior to Failure Difficulty Was Experienced in Paying Creditors by 563 Commercial Bankrupts

Classification	Number reporting	Per cent of total					
		6 months or less	7 months to 1 year	13 months to 2 years	25 months to 3 years	37 months to 4 years	Over 4 years
Manufacturers	53	34.0	22.6	30.2	3.8	5.6	3.8
Wholesalers:							
Clothing and dry goods	7	42.9	42.9	14.2	----	----	----
Groceries and other foods	15	13.3	20.0	40.0	13.4	----	13.3
Hardware and paint	14	14.3	28.6	21.4	14.3	14.3	7.1
All other	15	6.7	26.7	46.6	----	6.7	13.3
Total	51	15.7	27.5	33.3	7.8	5.9	9.8
Retailers (merchandise):							
Automobiles, accessories, and gasoline	33	18.2	33.3	24.3	18.2	3.0	3.0
Books, news, stationery, and novelties	8	25.0	----	37.5	25.0	12.5	----
Boots and shoes	10	60.0	----	30.0	----	----	10.0
Candy, cigars, and tobacco	7	28.6	42.8	28.6	----	----	----
Clothing and dry goods	20	35.0	5.0	30.0	15.0	----	15.0
Drugs	9	11.1	55.6	33.3	----	----	----
Furniture	9	----	44.5	33.3	11.1	11.1	----
Groceries and meat	39	28.2	38.5	7.7	12.8	5.1	7.7
Hardware	8	12.5	62.5	12.5	12.5	----	----
Hucksters and peddlers	14	14.3	35.7	28.6	7.1	----	14.3
Jewelry	6	33.3	----	----	33.3	----	33.4
Radio and musical instruments	14	21.4	21.4	35.7	----	7.1	14.4
Restaurants	25	36.0	32.0	24.0	8.0	----	----
All other	13	38.4	30.8	15.4	----	15.4	----
Total	215	26.5	29.8	22.8	10.7	3.7	6.5
Retailers (service):							
Cleaning, dyeing, pressing, tailoring, and laundry	12	50.0	25.0	8.3	16.7	----	----
Hotels, inns, and boarding houses	6	33.3	----	50.0	16.7	----	----
Insurance, advertising, and stocks (agents)	6	16.7	33.3	16.7	----	----	33.3
Recreation and amusement	9	44.5	22.2	11.1	----	22.2	----
Transportation (taxi, express, and transfer)	23	21.7	21.7	26.2	13.0	8.7	8.7
All other	8	----	12.5	50.0	37.5	----	----
Total	64	28.1	20.3	25.0	14.0	6.3	6.3
Real estate agents or dealers, builders, and contractors:							
Real-estate agents or dealers	31	9.7	32.3	22.6	16.1	6.4	12.9
Builders	68	10.3	41.2	14.7	11.8	8.8	13.2
Electrical contractors	5	----	20.0	40.0	40.0	----	----
Heating and plumbing contractors	25	12.0	16.0	44.0	8.0	8.0	12.0
Masonry and tiling contractors	22	4.6	4.6	54.5	22.7	9.1	4.5
Painting and paper-hanging contractors	16	37.5	18.8	37.5	6.2	----	----
All other contractors	13	15.4	15.4	15.4	30.8	15.4	7.6
Total	180	13.4	18.8	35.7	17.0	7.1	8.0
Grand total	563	21.8	27.0	26.3	11.6	5.7	7.6

TABLE 11.—COMMERCIAL EXPERIENCE OF 570 BANKRUPTS PRIOR TO THE OWNERSHIP OF THEIR BUSINESS

Classification	Total	Engaged in same business		Engaged in different business		Engaged in noncommercial activities	No information
		Owner	Employee	Owner	Employee		
Manufacturers	54	20	15	-	9	3	7
Wholesalers:							
Clothing and dry goods	7	2	1	3	1	-	-
Groceries and other foods	16	1	4	4	6	-	1
Hardware and paint	14	7	1	2	1	2	1
All other	15	1	6	3	1	1	3
Total	52	11	12	12	9	3	5
Retailers (merchandise):							
Automobiles, accessories, and gasoline	34	3	13	2	14	2	-
Books, news, stationery, and novelties	8	1	2	2	3	-	-
Boots and shoes	10	1	7	1	1	-	-
Candy, cigars, and tobacco	7	-	4	2	1	-	-
Clothing and dry goods	21	8	4	2	7	-	-
Drugs	9	2	6	-	-	1	-
Furniture	9	2	2	2	2	-	1
Groceries and meat	39	4	7	12	14	1	1
Hardware	8	1	3	-	3	1	-
Hucksters and peddlers	14	1	4	-	7	-	2
Jewelry	6	3	2	-	-	-	1
Radio and musical instruments	14	2	-	-	12	-	-
Restaurants	25	4	7	3	6	1	4
All other	14	3	4	-	4	3	-
Total	218	35	65	26	74	9	9
Retailers (service):							
Cleaning, dyeing, pressing, tailoring, and laundry	13	3	8	1	1	-	-
Hotels, inns, and boarding houses	6	-	-	1	1	3	1
Insurance, advertising, and stocks (agents)	6	-	2	-	2	2	-
Recreation and amusement	10	-	4	-	5	-	1
Transportation (taxi, express, and transfer)	23	3	3	1	14	1	1
All other	8	3	1	-	2	1	1
Total	66	9	18	3	25	7	4
Real-estate agents or dealers, builders and contractors:							
Real estate agents or dealers	31	-	3	9	10	6	3
Builders	68	8	32	7	17	2	2
Electrical contractors	5	1	3	-	1	-	-
Heating and plumbing contractors	25	8	14	-	3	-	-
Masonry and tiling contractors	22	-	8	8	5	1	-
Painting and paperhanging contractors	16	2	11	-	3	-	-
All other contractors	13	-	2	-	5	-	6
Total	180	19	73	24	44	9	11
Grand total	570	94	183	65	161	31	36

Table 12.—Occupations of Bankrupt Manufacturers Prior to the Ownership of Their Establishments

Occupation	Number	Occupation	Number
Manufacturer of same products and owner of similar concerns	20	Plumber	1
Employee in factories making similar products	13	Truck driver	1
Salesmen of unrelated products	4	Policeman	1
Factory salesmen of related and similar products	2	Student	1
Automobile mechanic	2	Housewife	1
		Building contractor	1
		No information	7
		Total	54

Table 13.—Occupations of Bankrupt Wholesalers Prior to the Ownership of Their Concerns

Occupation	Number	Occupation	Number
Clothing and dry goods:		Hardware and paint:	
Former owner same kind of business	2	Former owner same kind of business	7
Former wholesaler of other goods	3	Student	2
Wholesale salesman of similar goods	1	Former wholesaler of other products	2
Wholesale salesman of different goods	1	Salesman of related products	1
Total	7	Mechanic	1
Groceries and other foods:		No information	1
Wholesale salesman related products	4	Total	14
Owner of retail fruit store	2	All other:	
Owner of retail bakery	2	Employee same kind of business	5
Owner of similar business	1	Salesman of similar products	1
Policeman	1	Former owner of same kind of business	1
Iron molder in steel mill	1	Former wholesaler of other products	1
Truck salesman	1	Owner retail grocery store	1
Wholesale salesman unrelated products	2	Owner retail candy and fruit store	1
Carpenter	1	Restaurant cook	1
No information	1	Sailor	1
Total	16	No information	3
		Total	15

Table 14.—Occupations of Bankrupt Retailers (Merchandise) Prior to the Ownership of Their Stores

Occupation	Number	Occupation	Number
Automobiles, accessories, and gasoline:		Books, news, stationery, and novelties:	
Auto mechanic	8	Employee same kind of business	2
Furniture salesman	1	Owner of cigar store	1
Real estate broker	1	Manufacturer of picture frames	1
Car welder and painter	1	Salesman of canned foods	1
Whiskey salesman	1	Wholesaler of paper and twine	1
Laborer	2	Employee, rubber tire factory	1
Automobile salesman	4	Employee, bed factory	1
Stationary engineer	2	Total	8
Former owner, same kind of business	3	Boots and shoes:	
Electrician	1	Salesman, shoe store	3
Machine worker	1	Employee, shoe factory	2
Sailor	1	Proprietor of shoe store	1
Salesman, unrelated products	4	Shoemaker	1
Housewife	1	Bookkeeper, shoe store	1
Type-setter	1	Laborer	1
Electrical contractor	1	Owner of hardware store	1
Produce and fruit peddler	1	Total	10
Total	34		

TABLE 14.—OCCUPATIONS OF BANKRUPT RETAILERS (MERCHANDISE) PRIOR TO THE OWNERSHIP OF THEIR STORES—Continued

Occupation	Number
Candy, cigars, and tobacco:	
Clerk, same kind of business	4
Wholesaler of leather goods	1
Owner of retail dry-goods store	1
Clerk, grocery store	1
Total	7
Clothing and dry goods:	
Former owner, same kind of business	5
Former owner, related types of business	3
Employee, shoe factory	1
Private secretary	1
Owner of fish market	1
Factory worker	2
Employee, same or related kind of business	4
Government clerk	1
News reporter	1
Wholesaler, men's clothing	1
Manager, radio store	1
Total	21
Drugs:	
Pharmacist	2
Clerk, drug store	4
Former owner, retail drug business	2
Army officer	1
Total	9
Furniture:	
Former owner, furniture store	2
Employee in same business	2
Automobile mechanic	1
Proprietor, trucking concern	1
Clothing peddler	1
Laborer	1
No information	1
Total	9
Groceries and meat:	
Owner, retail bakery	3
Owner, tailor shop	1
Grocery-store clerk	5
Fruit and vegetable peddler	5
Fish merchant	1
Straw-hat maker	1
Truck driver	2
Cracker salesman	1
Carpenter	1
Factory worker	3
Painter and paper hanger	1
Employee, shoe repair shop	1
Former owner, grocery store	4
Junk dealer	1
Insurance agent	1
Clerk, meat-packing concern	1
Butcher, retail meat store	2
Soldier	1
Owner, confectionery store	1
Laborer	1
Telephone company lineman	1
No information	1
Total	39
Hardware:	
Employee, same kind of business	3
Owner, same kind of business	1
Paper-cutter, printing concern	1
Electrician	2
Student	1
Total	8
Hucksters and peddlers:	
Salesman, same kind of business	4
Former owner, same kind of business	1
Cutter, men's clothing factories	2
Laborer	2
Student	1
Auto mechanic	1
Salesman, dry-goods store	1
No information	2
Total	14
Jewelry:	
Former owner, same kind of business	3
Employee, same kind of business	2
No information	1
Total	6
Radio and musical instruments:	
Former owner, same kind of business	2
Sheet-metal worker	2
Insurance agent	2
Shoe salesman	1
Auto accessory salesman	1
Machinist	1
Clerk, department store	2
Student	1
Teamster	1
Wholesale hardware salesman	1
Total	14
Restaurants:	
Waiter, restaurant or lunch room	5
Former owner, same kind of business	4
Cook in restaurants	2
Housewife	1
Owner, beauty parlor	1
Buyer for a chain store	1
Bookkeeper and stenographer	1
Printing salesman	1
Actor	1
Automobile salesman	1
Farmer	1
Nurse	1
Fruit and vegetable peddler	1
No information	4
Total	25
All other:	
Employee, same kind of business	4
Former owner, same kind of business	3
Salesman, unrelated products	3
Student	2
Laborer	1
Sailor	1
Total	14

Table 15.—Occupations of Bankrupt Retailers (Service) Prior to the Ownership of Their Stores

Occupation	Number	Occupation	Number
Cleaning, dyeing, pressing, tailoring, and laundry:		Transportation (taxi, express, and transfer):	
Employee, similar business	8	Employee, same kind of business	3
Former owner, similar establishments	3	Former owner, similar concern	3
Restaurant waiter	1	Railroad laborer	1
Wall-paper salesman	1	Grocery-store clerk	1
		Telephone lineman	1
		Salesman, men's clothing	1
Total	13	Shoemaker	1
		Window decorator	1
Hotels, inns, and boarding houses:		Garage attendant	1
Housewife	2	School teacher	1
Real-estate broker	1	Fireman	1
Purchasing agent for candy factory	1	Clerk, auto accessory shop	1
Student	1	Grocery-store proprietor	1
No information	1	Laborer, railroad yards	1
		Restaurant waiter	1
Total	6	Painter and paperhanger	1
		Stationary engineer	1
Insurance, advertising, and stocks (agents):		Employee, shoe factory	1
Installment collector	1	No information	1
Toy salesman	1		
School teacher	2	Total	23
Employee same kind of business	2		
		All other:	
Total	6	Former owner, same business	3
		Employee, similar establishments	1
Recreation and amusement:		Wholesale liquor salesman	1
Actor	2	Housewife	1
Post-office clerk	1	Cook	1
Laborer	1	No information	1
Bricklayer	1		
Promoter of amusement activities	1	Total	8
Leather goods salesman	1		
Theater manager	1		
Interior decorator	1		
No information	1		
Total	10		

TABLE 16.—OCCUPATIONS OF REAL ESTATE AGENTS OR DEALERS, BUILDERS, AND CONTRACTORS PRIOR TO THE OWNERSHIP OF THEIR BUSINESSES

Occupation	Number	Occupation	Number
Real-estate agents or dealers:		Builders—Continued:	
Former building contractor	4	No information	2
Student	3		
Clerk, real-estate office	2	Total	68
Employee, tailor shop	1		
Insurance agent	1	Electrical contractors:	
Furrier	1	Employee, other electrical contractors	3
Automobile salesman	1	Former electrical contractor	1
Saloon keeper	1	Laborer, building trades	1
Harness maker	1		
Sailor	1	Total	5
Clerk, dry-goods store	1		
Social-service worker	1	Heating and plumbing contractors:	
Owner of lumberyard	1	Employee, other plumbing and heating contractors	14
Fireman	1		
Machinery manufacturer	1	Former plumbing and heating contractor	8
Owner, grocery store	1		
Carpenter	1	Stationary engineer	2
Owner, confectionery store	1	Factory worker	1
Real-estate salesman	1		
Truck driver	1	Total	25
Owner, dry-goods store	1		
Government clerk	1	Masonry and tiling contractors:	
No information	3	Employee, other masonry and tiling contractors	8
Total	31	Former general building contractor	7
		Student	1
Builders:		Laborer, building trades	4
Carpenter	26	Teamster	1
Former building contractor	8	Owner of restaurant	1
Employee, other building contractors	6		
Laborer (but not in building trades)	5	Total	22
Real-estate broker	1		
Watch repairer	1	Painting and paper-hanging contractors:	
Wholesale grocery salesman	1	Employee, other painting and paper-hanging contractors	11
Automobile mechanic	1		
Owner of garage	1	Former painting and paper-hanging contractor	2
Fisherman	1		
Teamster	1	Automobile mechanic	1
Musician	1	Truck driver	1
Owner, electrical repair shop	1	Employee, stone-cutting contractor	1
Coal salesman	1		
Manufacturer of men's clothing	1	Total	16
Taxi driver	1		
Student	2	All other contractors:	
Wholesale flour salesman	1	Employee, same kind of trade	2
Owner, retail grocery	1	Carpenter	2
Wood peddler	1	Stationary engineer	2
Lumber salesman	1	Laborer, railroad yards	1
Draftsman	1	No information	6
Street-car motorman	1		
Manufacturer of chemical products	1	Total	13

TABLE 17.—SCHOOL EDUCATION OF COMMERCIAL BANKRUPTS

Extent	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real-estate agents or dealers, builders, and contractors	Total
No school education	6	5	16	5	14	46
Some grade school	23	19	64	18	59	183
Grade school graduates	5	8	35	7	21	76
Some high school	8	5	31	12	29	85
High school graduates	7	3	33	7	21	71
Some college	3	5	12	3	7	30
College graduates	1	1	15	10	17	44
Miscellaneous	1	6	12	4	12	35
Total	54	52	218	66	180	570

NOTE.—390, or 68.6 per cent, had less than high-school education.

TABLE 18.—AGE OF COMMERCIAL BANKRUPTS AT DATE OF BANKRUPTCY

Classification	Number reporting	15–24 years	25–34 years	35–44 years	45–54 years	55–64 years	Over 64 years
Manufacturers	39	1	13	12	8	4	1
Wholesalers	45	1	7	15	13	9	----------
Retailers (merchandise)	207	4	56	68	53	23	3
Retailers (service)	60	1	21	24	11	3	----------
Real-estate agents, or dealers, builders, and contractors	173	3	50	54	49	10	7
Total	524	10	147	173	134	49	11

TABLE 19.—SEX OF COMMERCIAL BANKRUPTS

Sex	Number
Males	479
Females	19
Partnership, male and female	3
Corporations	69
Total	570

TABLE 20.—FORM OF ORGANIZATION OF BANKRUPT CONCERNS

Classification	Number reporting	Corporations	Partnerships	Individual proprietors
Manufacturers	54	22	7	25
Wholesalers	52	11	7	34
Retailers (merchandise)	218	21	18	179
Retailers (service)	66	8	8	50
Real estate agents or dealers, builders, and contractors	180	7	27	146
Total	570	69	67	434

Table 21.—Citizenship of Commercial Bankrupts

Classification	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real estate agents or dealers, builders, and contractors	Total
Native citizen	19	23	100	39	89	270
Naturalized citizen	13	22	76	15	50	176
Alien, no application	1	1	3	1	8	14
Alien, application	6	2	27	6	26	67
No information	15	4	12	5	7	43
Total	54	52	218	66	180	570

Table 22.—Birthplace of Commercial Bankrupts

Country	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real-estate agents or dealers, builders, and contractors	Total
United States	19	23	100	39	89	270
British Isles	2	2	9	3	5	21
Scandinavian countries		2		2	1	5
Germany			1		1	2
Austria			1		3	4
Russia	8	11	47	14	34	114
Poland		3	9		2	14
Greece		2	5	2		9
Italy	5	2	7	3	14	31
Spain or Portugal	1	1	1		1	4
China			1			1
Armenia			2			2
Turkey			2			2
Palestine		1	1			2
Canada	1	1	24	3	25	54
West Indies			1			1
No information	18	4	7		5	34
Total	54	52	218	66	180	570

Table 23.—Countries in Which the Fathers of Bankrupts Were Born

Country	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real-estate agents or dealers, builders, and contractors	Total
United States	8	8	48	20	41	125
British Isles	8	5	29	7	25	74
Scandinavian countries		2	5	3	3	13
Germany		1	12		5	18
Austria	1		2		3	6
Russia	11	19	51	18	39	138
Poland	2	3	10	1	2	18
Greece		2	5	2		9
Italy	6	2	10	7	19	44
Spain or Portugal			2			2
France		1				1
China			1			1
Armenia			2			2
Turkey			2	2		4
Palestine			1			1
Canada	4	1	26	3	43	77
West Indies			1			1
No information	14	8	11	3		36
Total	54	52	218	66	180	570

Table 24.—Illness Among Bankrupts and Their Dependents During Year Prior to Failure

Classification	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real-estate agents or dealers, builders, and contractors	Total
No information	16	1	16	3	5	41
No illness	9	9	54	21	52	145
Number of bankrupts ill	2	3	24	7	22	58
Number of bankrupts whose dependents were ill	21	29	92	22	82	246
Number of cases in which both bankrupt and dependents were ill	6	10	32	13	19	80
Total	54	52	218	66	180	570

Table 25.—Medical Expenses of Commercial Bankrupts

Classification	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real estate agents or dealers, builders, and contractors	Total
No information	15	7	10	3	6	41
None	3	2	22	7	24	58
$1 to $100	15	15	75	23	67	195
$101 to $250	11	7	64	12	48	142
$251 to $500	7	14	28	15	22	86
$501 to $750	1	3	3	4	6	17
$751 to $1,000	2	1	3	----------	2	8
$1,001 to $1,500	----------	1	4	1	1	7
$1,501 to $2,000	----------	----------	5	----------	2	7
Over $2,000	----------	2	4	1	2	9
Total	54	52	218	66	180	570

Table 26.—Number of Dependents of Commercial Bankrupts

Number of dependents	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real estate agents or dealers, builders, and contractors	Total
No information	25	10	28	12	22	97
1	6	5	40	13	31	95
2	8	9	59	12	33	121
3	7	10	34	7	37	95
4	3	6	28	7	22	66
5	1	5	14	4	11	35
6	1	2	6	6	9	24
7	2	2	4	3	9	20
8	1	2	2	1	3	9
9	----------	1	3	1	3	8
Total	54	52	218	66	180	570

Table 27.—Bookkeeping in Bankrupt Enterprises

Classification	Number reporting	Per cent keeping—		
		No books at all	Inadequate books	Adequate books
Manufacturers	53	22.6	28.3	49.1
Wholesalers:				
Clothing and dry goods	7	28.6	42.8	28.6
Groceries and other foods	16	25.0	43.8	31.2
Hardware and paint	14	35.7	21.4	42.9
All other	15	20.0	46.7	33.3
Total	52	26.9	38.5	34.6
Retailers (merchandise):				
Automobiles, accessories, and gasoline	34	52.9	32.4	14.7
Books, news, stationery, and novelties	8	37.5	37.5	25.0
Boots and shoes	10	50.0	40.0	10.0
Candy, cigars, and tobacco	7	57.1	14.3	28.6
Clothing and dry goods	21	38.1	52.4	9.5
Drugs	9	55.6	44.4	----------
Furniture	9	66.7	11.1	22.2
Groceries and meat	39	80.0	17.5	2.5
Hardware	8	37.5	37.5	25.0
Hucksters and peddlers	13	46.2	15.4	38.4
Jewelry	6	16.7	50.0	33.3
Radio and musical instruments	14	50.0	28.6	21.4
Restaurants	24	50.0	37.5	12.5
All other	12	25.0	41.7	33.3
Total	215	52.6	31.6	15.8
Retailers (service):				
Cleaning, dyeing, pressing, tailoring, and laundry	12	33.3	25.0	41.7
Hotels, inns, and boarding houses	4	75.0	----------	25.0
Insurance, advertising, and stocks (agents)	5	40.0	20.0	40.0
Recreation and amusement	9	55.6	33.3	11.1
Transportation (taxi, express and transfer)	22	54.5	36.4	9.1
All other	8	50.0	12.5	37.5
Total	60	50.0	26.7	23.3
Real estate agents or dealers, builders, and contractors:				
Real estate agents or dealers	26	65.4	19.2	15.4
Builders	63	63.5	23.8	12.7
Electrical contractors	5	100.0	----------	----------
Heating and plumbing contractors	24	54.2	33.3	12.5
Masonry and tiling contractors	22	91.0	4.5	4.5
Painting and paper-hanging contractors	16	75.0	18.8	6.2
All other contractors	13	53.8	15.4	30.8
Total	169	67.5	20.1	12.4
Grand total	549	51.5	27.9	20.6

Table 28.—Business Aids Used by Bankrupt Enterprises

Classification	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real estate agents or dealers, builders, and contractors	Total
No information	1	----------	4	1	----------	6
None	35	40	198	55	32	360
Trade association	4	7	7	7	131	156
Credit bureau	12	5	5	1	8	31
Both trade association and credit bureau	2	----------	4	----------	----------	6
Other business aid	----------	----------	----------	2	9	11
Total	54	52	218	66	180	570

Table 29.—Location Shifts of Bankrupt Enterprises Prior to Failure

Classification	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real estate agents or dealers, builders, and contractors	Total
No information	5	4	8	1	2	20
Same location	17	16	107	36	72	248
Several locations, same city	22	21	70	24	80	217
Several different cities	10	11	33	5	26	85
Total	54	52	218	66	180	570

Table 30.—Number and Character of Real Estate Holdings of Bankrupts During Year Prior to Failure

Classification	Manufacturers	Wholesalers	Retailers (merchandise)	Retailers (service)	Real estate agents or dealers, builders, and contractors	Total
No information			5	1	4	10
None	41	32	146	52	53	324
Dwelling place, unmortgaged	1		2	1	2	6
Dwelling place, mortgaged	4	11	42	8	45	110
Place of business, unmortgaged					1	1
Place of business, mortgaged	3	2	6	2	1	14
Other holdings, unmortgaged			1			1
Other holdings, mortgaged	1	1	5	1	29	37
Various combinations of holdings	4	6	11	1	45	67
Total	54	52	218	66	180	570

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